

CITY OF ALBUQUERQUE

Five-Year Forecast Fiscal Year 2005-2009



December 2004

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

The Five-Year Forecast estimates future revenues and expenditures for the General Fund and the subsidized funds for the present fiscal year, FY/05, and for FY/06 through FY/09. The purpose of this report is to identify key trends in revenues and expenditures and to provide information about the financial challenges anticipated over the next few years.

General Fund Revenues. The report projects growth in General Fund revenues to increase rapidly at 9.5% in FY/05, led by the addition of the ¼ Cent Public Safety Tax, which shows up for eleven months in FY/05. FY/06 growth is limited by the proposed tax cut of a 1/16 cent in Gross Receipts Tax (GRT), but is offset by the increase in the ¼ Cent Public Safety Tax which increases substantially with a full twelve months of collection. The revenue projections are based on forecasts of economic activity prepared by the Bureau of Business and Economic Research at the University of New Mexico for Albuquerque and New Mexico and by Global Insight for the national economy. The City's Forecasting Advisory Committee, including experts from within and outside government, reviews these forecasts and revenue projections prepared by City staff, resulting in the attached projections.

General Fund Expenditures. The City's Office of Management and Budget prepares expenditure projections including the costs of projected changes in major costs such as employee health care and fuel, operating new facilities coming on line, grants issues, and other costs of departmental operations. The forecast includes negotiated wage increases with all unions for FY/06 and anticipated increased health insurance costs. For FY/07 through FY/09 wage growth is based on an inflation factor. The forecast assumes \$29.9 million of public safety tax available for appropriation in FY/06. The tax will continue to be used to fund the 61 firefighters and 45 police officers funded in the FY/05 budget. It is assumed the tax will fund an additional 80 police officers in FY/06 as well as the equipment and contractual needs identified in the spreadsheet attached to the legislation. One twelfth of the tax expenditure becomes part of the reserved appropriation. Recurring General Fund expenditures are projected to increase 13.7% in FY/05 and then 12.6% in FY/06. Expenditure growth slows and is only 5.6% in FY/07.

The Challenge in FY/05 and FY/06.

FY/05 enjoys a healthy fund balance that was build up from General Fund reversions and unanticipated revenue in FY/04. The unreserved fund balance in FY/04 was \$34.1 million and the anticipated unreserved fund balance in FY/05 (after the mid-year appropriation but not taking credit for reversions) is \$25.8 million.

A \$2.1 million increase in FY/05 appropriations will be introduced in the mid-year clean-up legislation. The principal elements of increase are detailed in this report and include a \$1.2 million increase in early retirement, funding to support contracts that must be signed now for the third Spanish art exhibit in FY/06, appropriating funds already received at the Convention Center, supplementing the appropriation for Transit and reappropriating FY/04 reversions in corrections. The mid-year appropriation also takes credit for savings from refinancing the debt for the Convention Center.

Anticipated FY/05 Mid-Year Clean-Up (\$000)

Planning Modeling PGS (Impact Fees)	\$40
Grant Accountant	35
Fixed Asset Accountant	35
Loomis Contract	35
Early Retirement	1,200
War on Weeds	100
Transfer to Transit	324
Convention Center	400
Human Resources	23
Seniors	8
Spain 3 (Museum)	400
Corrections One Time Capital	300
Trfr to Op Grants – OEM	33
Transfer for Lodgers' Tax	<u>(834)</u>
Total	\$2,099

FY/06 appears to be an expensive year as \$7.9 million in negotiated salary increases, \$13 million in operating costs associated with CIP coming-on-line, \$5.5 million in initiatives, \$3.6 million and \$5.1 million in increased transfers to Corrections and Transit, \$3.4 million to restore the transfer for basic services suspended for the past two years, \$2.7 million in increased health insurance costs, an additional \$2 million in risk costs, and \$4.8 million in 1/4 Cent Public Safety Tax programs are covered. The total increase in the anticipated FY/06 budget is \$53.4 million above the FY/05 original budget.

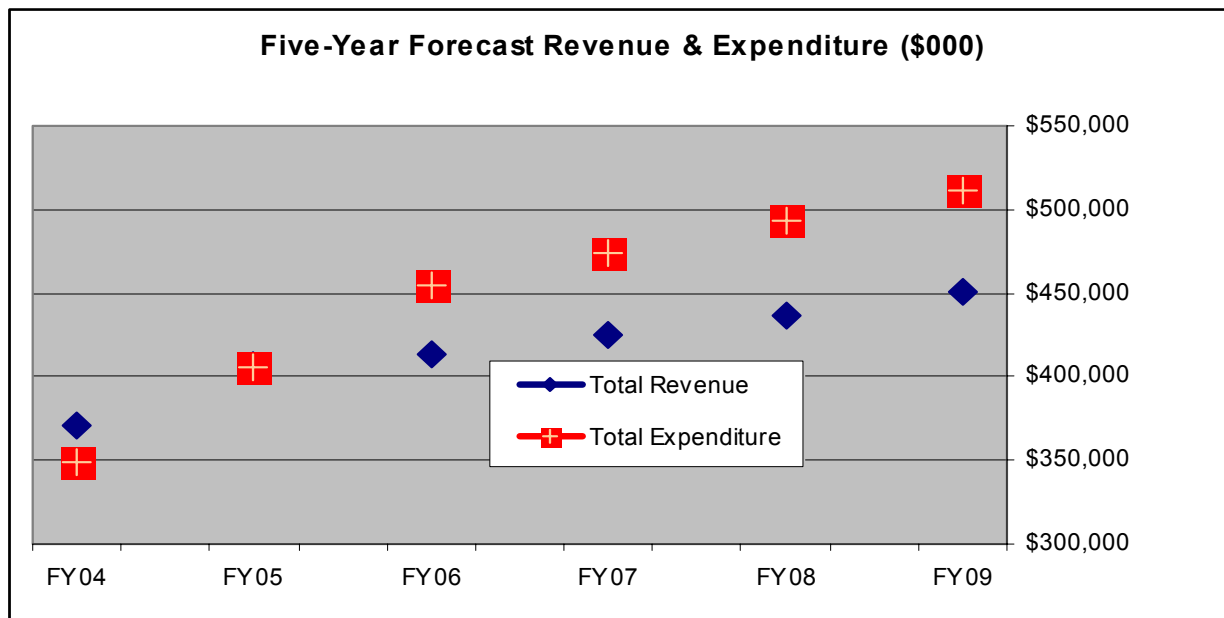
Itemized FY/06 Increases (\$000)

Negotiated Salary Increase	\$7,908
OEB Increase	2,699
CIP Coming on Line	13,038
Initiatives	5,533
Transfer to Corrections	3,626
Transfer to Transit	5,087
Cost of Risk	2,010
Quarter Cent Public Safety Tax Increase	4,821
General Election (one time)	800
Transfer to Parking	728
Transfer for Basic Services	3,363
Annualized funding for Call Center	562
Annualized funding for Cultural Museum	<u>102</u>
Total FY/06 Increases	\$50,277
Anticipated FY/06 Budget	\$455,231
FY/05 Original Budget	<u>401,803</u>
Actual FY/06 Increase	\$53,428

Additionally, FY/06 assumes the introduction of a bill to cut recurring GRT by 1/16th of one cent. This GRT cut reduces revenue by \$7.6 million in FY/06. A bill to cut GRT is anticipated. Recent action by the State eliminating the tax on food and medical services was financed by removing the ½ cent municipal credit and increasing the GRT by ½ cent. Combined with a 3/16th GRT increase in County GRT, this pushes the tax to 6.75% by January 1, 2005. The value of the GRT reduction is roughly equivalent to the value of 1 mill of property tax. City Council in an amendment to recent legislation recommended 1 mill of the operating levy be redirected to the capital program beginning in FY/06.

The General Fund currently holds a number of special reserves. The \$1.5 million ¼ Cent Public Safety Tax reserved for a processing facility is assumed to remain over the Five-Year Forecast period. The IRB Settlement Reserve is similarly held intact through the forecast period, although legislation to use this reserve for economic development purposes is in discussion. The Tricentennial Reserve of \$600,000 remains, awaiting appropriation, as does \$275,000 for nuisance abatement. The Special Reserve of \$2 million established in the FY/05 budget is assumed to be expended to support the FY/06 budget.

Given the assumptions outlined above, and the assumptions regarding inflation factors, CIP coming-on-line and initiatives outlined in the Expenditure Estimating Methodology section, revenue will lag expenditures in FY/06 through FY/09, with an unreserved fund balance going negative by \$18.3 million in FY/06. This trend continues in the out years as modest revenue growth is not sufficient to cover increasing operating costs.



Risks to the Forecast. The five-year forecast is always challenging. The exercise seeks to estimate the difference between revenues and expenditures. Obviously, the result will change if revenue receipts, expenditure demands or both deviate from the forecast.

Global Insight assigns a 60% probability to the national economic baseline forecast that underlies this report, 20% to the optimistic and 20% to the pessimistic scenarios. As the national economy changes, both City revenues and expenditure forecasts are affected. Risks also include federal grant audits that could require up to \$7 million in unbudgeted

repayments. The forecast does not include costs for the Red Light Enforcement ordinance (STOP) or the DWI First Offender ordinance. The costs for these projects are being developed and will be submitted with the appropriate legislation. The STOP program will be self funded by fines and no net impact on the General Fund is anticipated. It is also uncertain what the full implications are for the Impact Fee implementation and it is possible that costs could increase beyond the estimated revenues generated by the fees.

Growth in Internet sales, gaming opportunities, and retail sales beyond the municipal boundary have probably suppressed tax revenues in recent years and changes in state tax laws have eroded the tax base in the past ten years. The state has recognized the problem that local governments face as they change tax policies. In the 2004 session, the legislature did away with the tax on food and some medical services. To hold the local governments harmless, the state took the cities half cent municipal credit, thus increasing the tax by one half cent on items other than food and medical services. This tax collected in cities will also pay for tax revenues lost in any unincorporated areas. The cities should be held harmless, but there are some real questions about reporting, particularly in the first few months as doctors and food retailers learn to report, even though they do not pay the tax.

TABLE 2
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
(\$000's)

	UNAUDITED ACTUAL FY04	REVISED APPROP FY05	FORECASTS			
			FY06	FY07	FY08	FY09
RESOURCES:						
Recurring Revenue	360,542	398,036	412,147	424,028	437,050	450,776
1/16th GRT Reduction			(7,612)	(7,837)	(8,083)	(8,358)
% Chng Recur'g Revenue		10.4%	1.6%	2.9%	3.1%	3.1%
Total Non-recurring	10,521	8,331	9,112	8,750	8,189	8,249
TOTAL REVENUES	371,063	406,367	413,647	424,942	437,156	450,666
% Chng Total Revenue		9.5%	1.8%	2.7%	2.9%	3.1%
BEGINNING FUND BALANCE	43,125	64,786	65,671	24,087	(24,419)	(80,490)
TOTAL RESOURCES	414,188	471,153	479,318	449,029	412,737	370,176
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	341,032	387,867	436,717	461,187	483,587	502,505
% Change Recurring Appropriation		13.7%	12.6%	5.6%	4.9%	3.9%
Non-recurring Exp/App:						
One-time Items	8,370	17,615	18,514	12,260	9,640	9,318
Total Non-recurring	8,370	17,615	18,514	12,260	9,640	9,318
TOTAL EXPEND/APPROP	349,402	405,482	455,231	473,447	493,227	511,823
UNADJUSTED FUND BALANCE	64,786	65,671	24,087	(24,419)	(80,490)	(141,646)
ADJUSTMENTS:						
Encumbrances	(1,035)	0	0	0	0	0
Unrealized Gains on Investments	375	(97)	(97)	(97)	(97)	(97)
Other Accounting Adjustments	(537)	(389)	(389)	(389)	(389)	(389)
TOTAL ADJUSTMENTS	(1,197)	(486)	(486)	(486)	(486)	(486)
ADJUSTED FUND BALANCE	63,589	65,185	23,601	(24,905)	(80,976)	(142,132)
RESERVES:						
Bus Rapid Transit (BRT)	275	0	0	0	0	0
FY/05 Reserves	0	5,921	3,921	3,921	3,921	3,921
1/12th Operating Reserve	29,202	33,457	37,936	39,454	41,102	42,652
TOTAL RESERVES	29,477	39,378	41,857	43,375	45,023	46,573
UNRESERVED FND BALANCE	34,112	25,807	(18,256)	(68,280)	(125,999)	(188,705)
1/12th Operating Reserve	29,117	33,790	37,936	39,454	41,102	42,652
Recurring Surplus/(Deficit)	19,510	10,169	(32,182)	(44,996)	(54,620)	(60,087)

ECONOMIC OUTLOOK

NATIONAL ECONOMY AND KEY POINTS FROM THE GLOBAL INSIGHT OUTLOOK

The national economy has been growing slowly following the recession in 2001. FY/04 marked the beginning of a turnaround spurred in part by tax cuts. The third quarter of calendar year 2003 showed an increase of 7% increase in real GDP and increases in employment, including revisions to past month's losses. FY/04 had real GDP growth of 4.5%, but this is expected to slow to under 4% for FY/05 and around 3% for the remainder of the forecast. Growth is now strong enough that the Federal Reserve Board (FRB) is beginning to increase rates. Still inflation remains under control even with the large increases in oil prices. Global Insight (GI) expects oil prices to remain around \$35/bbl well above previous forecasts.

GI also presents risks to the forecast in the form of optimistic and pessimistic scenarios. The pessimistic scenario, assigned a probability of 20%, assumes that the economy will be hit by a form of stagflation. Growth declines to 1% in the middle of 2005. This is driven in part by increases in inflation fed by high oil prices and the weak dollar. Inflation rises to 3% helped by declines in productivity. The FRB reacts to inflation pushing up interest rates to 6%. Unemployment increases, hitting a high of 6.5% in 2007. The optimistic scenario, assigned a probability of 20%, has stronger growth driven by productivity increases, which helps both inflation and budget deficits. The optimistic scenario is only slightly better than the baseline, while the pessimistic scenario has a strong impact on the economy. These scenarios are included in the revenue forecast in the Alternative Scenarios section.

Gross Disposable Product (GDP)

GDP was negative for the second and third quarters of calendar year 2001 and FY/02 only had growth of 0.8%. In FY/03 the economy rebounded slowly to post 2.5% growth. Growth increases to 4.5% in FY/04. Growth slows to under 4% in FY/05 and remains at about 3% for the remainder of the forecast.

Employment and Productivity

As the economy moved into recession, unemployment jumped from the historically low rates of around 4% experienced from FY/99 to FY/02. Unemployment averaged 5.9% in FY/03 and declined slightly to 5.7% in FY/04. Unemployment continues a slight decline in FY/05 to about 5.5% and remains at this level for the remainder of the forecast. Employment growth has made some increases recently, but was only near zero in FY/04. FY/05 and FY/06 should have growth around 1.5% slowing to 1% for the remainder of the forecast. FY/04 showed strong productivity growth in output per hour, but GI expects this to drop from to 3%; well below the last several years.

Inflation

As measured by the consumer price index for urban consumers, inflation was 3.4% in FY/01. With the weak economy, inflation declined to 1.8% in FY/02. FY/03 and FY/04 showed inflation averaging about 2%. In FY/05 inflation is expected to be about 2.5%, driven largely by oil price increases, but declines below 1.5% in FY/06. This slowly increases to 2% by the end of the forecast. Inflation is held in check, as there is little wage pressure as employment grows slowly and productivity increases hold costs down.

Interest Rates

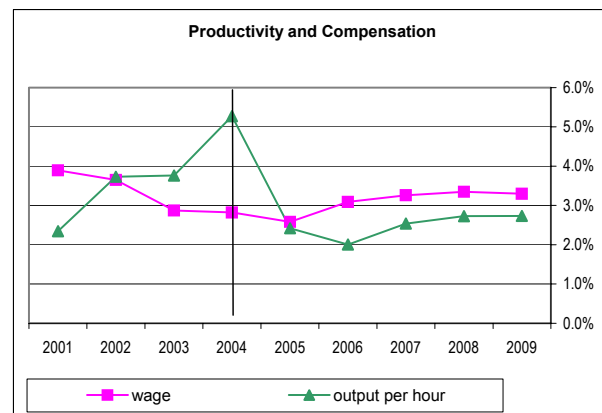
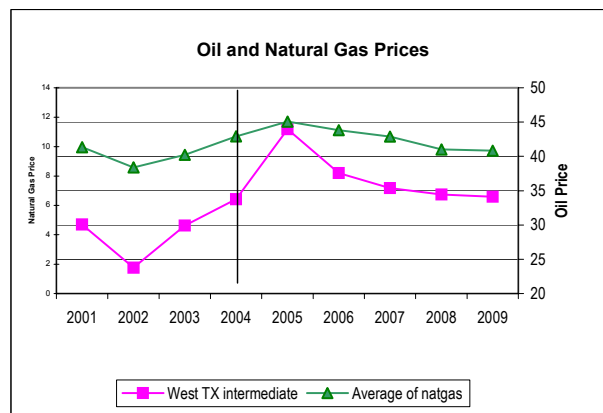
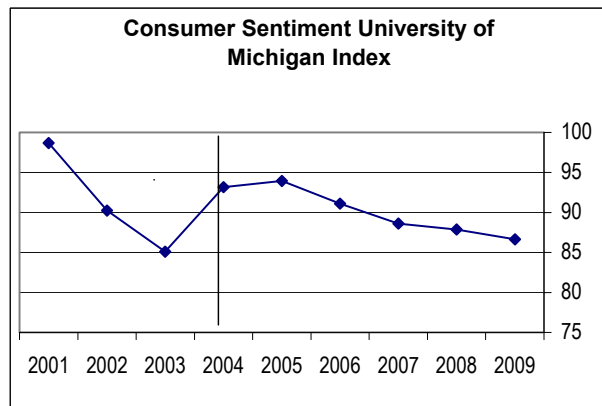
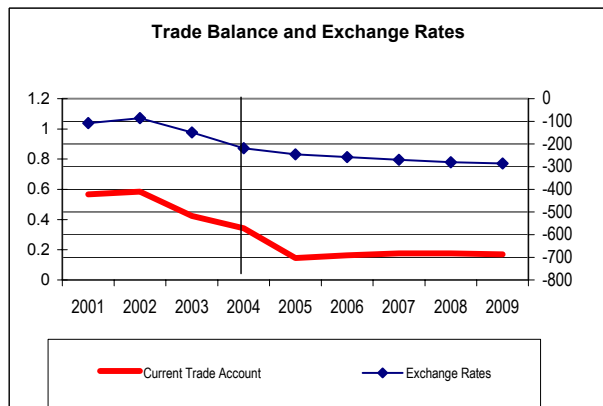
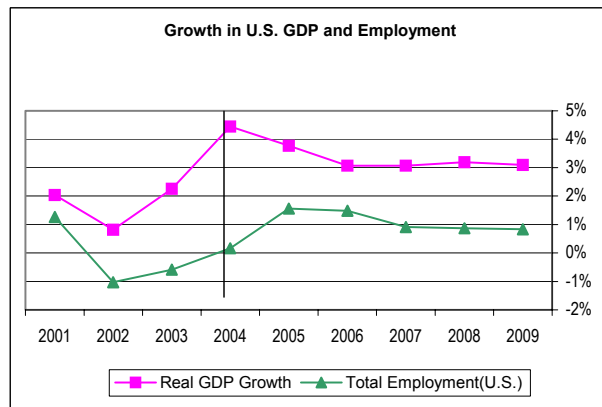
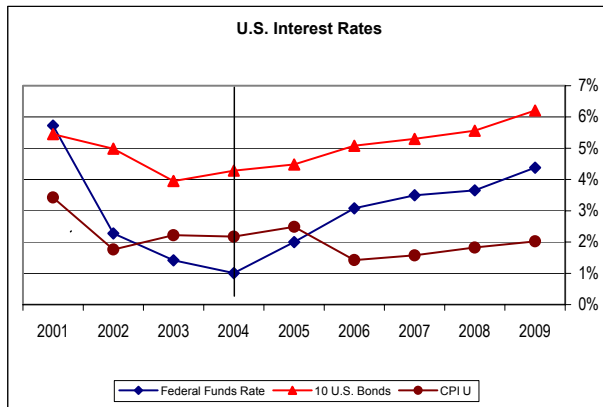
The Federal Reserve Board (FRB) cut rates to 1% the lowest level since the 1960s. The FRB has increased rates twice in 2004 and rates are expected to continue increasing. Rates are expected to average 2% for FY/05 and continue to increase to 3% by end of 2005, yielding an average rate of 3% for FY/05. Rates continue up and end the forecast at 4.5% in FY/09. Long term rates also grow, but somewhat slower than the short term rates. The rates are still quite low historically.

World Economy

GI believes that the world economy will continue to grow though at a slow rate. The dollar will continue to weaken and the current trade account deficit continues to grow to \$700 billion in FY/05 and remain there for the remainder of the forecast. This remains a source of risk to the economy as the economy. Slower growth in the rest of the world would lower export growth and hurt the U.S. economy and increase the existing trade imbalance.

U.S. ECONOMIC VARIABLES AND FORECAST (FISCAL YEAR)

October 2004 Baseline Forecast



ALBUQUERQUE ECONOMY

The situation in the Albuquerque economy is similar to nation as a whole. Although Albuquerque has increased employment, the growth rates through FY/04 are very moderate. The unemployment rate in Albuquerque increased from around 3% in FY/01 to 5.1% in FY/02 and FY/03 in FY/04 the employment rate was 5.2%, but is heading down. As the nation the employment rate slows but does not return to the low levels experienced before the recession. Growth of non-agricultural employment is only now starting to reach long term averages.

The classification of industries has changed with a movement from the Standard Industrial Classification (SIC) code system to the new North American Industrial Classification System (NAICS). This system provides a framework for classification of industries that is the same for all of North America and updates some of the definitions for newer industries. While the largest sectors in the Albuquerque economy were trade (retail and wholesale) and services under the SIC definition, these sectors were broken up and the distinctions are now quite different. For instance, retail trade under the SIC classification included eating and drinking establishments. The “eating and drinking” category is now included in the hospitality sector that also includes hotels (this was in the service sector under SIC code). A table at the end of this section provides sector employment numbers for FY/99 to FY/09 by the NAICS categories.

Trade Transportation and Utilities. This sector has posted slow growth and from FY/00 to FY/04 lost 325 jobs. The largest piece—retail trade—had an average annual decline of increased only 0.8% for this period. Retail food store employment has suffered, and the local electric and gas utility lost approximately 75 workers in the area in 2003. Retail trade seems to be experiencing a consolidation with expanding big stores, allowing fewer employees to provide sales service. The forecast has moderate growth in this sector; with an average annual growth of 1.1%.

Manufacturing. This sector accounted for 8.5% of employment in 1993 declining to 6.3% in FY/04. Employment peaked in FY/98 at 28,242, declining to 23,033 in FY/04, a loss of over 5,000 jobs. Still the manufacturing sector has held up better in Albuquerque than it has in the U.S. economy. These job losses were due first to the Asian financial crisis of 1998, which hit telephone manufacturing and hurt the local employment of Motorola and Philips. Motorola sold what little manufacturing capacity it had left in 1999 and Philips closed its plant in October 2003. Intel, after expanding in 1995, has held employment rather constant despite a \$2 billion expansion in 2002. The employment declines slowed some in FY/04 but still suffered a loss of 4.3%. In FY/05 employment is expected to increase 1.3%. Growth continues at an increasing rate and for the entire forecast averages 5.3%. This includes jobs from the TempurPedic mattress factory, growth in the out years with the addition of 2,000 jobs for Eclipse Aviation. New jobs in the aerospace industry also come from several other manufacturers helping to diversify the local economy.

Educational and Health Services. Albuquerque is a major regional medical center. Presbyterian Hospital and its HMO are one of the largest employers in the area. This is one of the fastest growing categories in the MSA economy. In the past 10 fiscal years this sector had average growth of 4.2%. In FY/02 and FY/03 growth was 6.3% and 5.7% respectively. In FY/04 growth was 4.8% and is expect to post growth of 4.6% in FY/05. Much of this growth is due to a change in Medicare policy that allows payment for home healthcare. Growth tapers off with the average annual growth in the forecast of 2.5%.

Leisure and Hospitality. This category includes eating and drinking establishments as well as hotels and other travel related facilities. Growth was only 1.3% in FY/03 but FY/04 had growth of 2.7%. Lodger's tax showed an increase of almost 5% for the same period, indicating a pickup in travel after a slow period. Since 1995 the stock of hotel rooms in the City has increased significantly with over 3,400 additional hotel and motel rooms being permitted. For the remainder of the forecast this sector is expected to slow with an average annual growth of only 1.2%

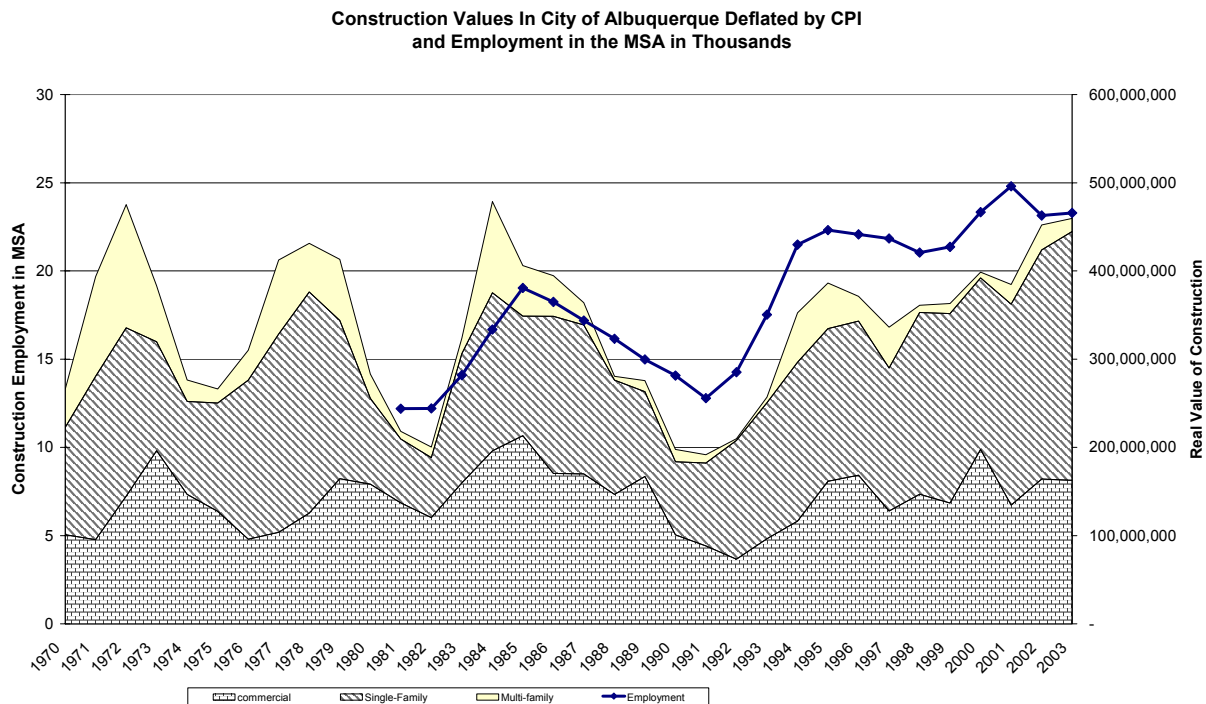
Financial Activities. This sector includes finance and insurance including credit intermediation. The sector increased employment by an average of 2% per year, despite consolidations in the banking industry and a 2.7% decline in FY/02. The sector was buoyed by strong growth in the insurance carrier industry. This includes about 500 jobs created in 2002 and 2003 by Blue Cross. FY/04 had growth of about 1% and FY/05 is expected to grow at 1%. The forecast anticipates growth of around 1.2% in the remainder of the forecast.

Professional and Business Services. This sector includes temporary employment agencies and some of Albuquerque's back-office operations. It also includes Sandia National Labs (SNL). This sector had average annual growth of 3% in the past decade, but suffered declines of 2% and 0.6% in FY/02 and FY/03 respectively. The professional, scientific, and technical service sub-sector shows stronger growth. The New Mexico Department of Labor (NM DOL) shows increases of 600 jobs during the year ending September 2003. A large source of these increases is hiring at SNL. The sector in FY/04 had growth of only 0.2%, but is expected to increase 3.5% in FY/05. The forecast for this category has average growth of 2.7% for FY/05 to FY/09.

Information. This sector includes businesses in publishing, broadcasting, telecommunications, and internet service establishments. This sector was very strong in the 1990s but suffered a decline of 7.5% in FY/03 and 5.1% in FY/04. This trend continues with an expected decline of 3.2% in FY/05. The most recent decline is primarily from layoffs at the MCI call center of about 880 jobs. The sector is expected to rebound and is forecast to grow at an annual average rate of 3.7% in the forecast period.

Construction

Construction is typically cyclical, with large swings in building and employment. The following chart shows the real value of single-family, multi-family, and non-residential new permits from 1962 to 2003 (deflated by the CPI; 100=1982-84). Four distinct peaks occur in 1973, 1979, 1985 and 1995. There was only a slight decline from the 1995 peak and the real value of construction has exceeded this level. The increase is driven primarily by residential construction. Commercial construction in real terms has remained relatively flat and the total annual value of construction has not reached any of the previous peaks. In the past the cycles were accentuated by large buildups of multi-family housing, in part, to capture tax breaks that are no longer available. After overbuilding, vacancy rates would increase dramatically and apartment building would cease for several years. Since 1995, single-family construction has made up a larger share of total construction and multi-family construction has remained subdued.



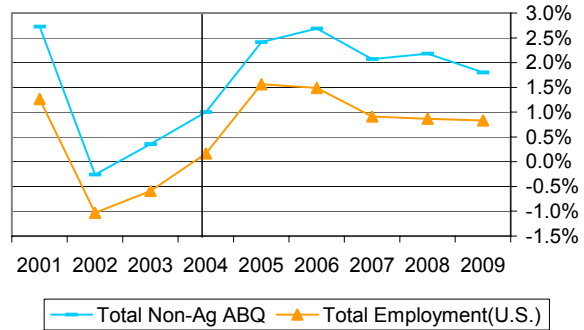
Employment in the construction sector was very strong in 2000-2002, driven in large part by the Intel project and the Big-I reconstruction project. The Big-I was completed ahead of schedule in June 2002, and the Intel project was finished in June of 2002. As these jobs were lost we saw a reduction in employment in FY/02 and some additional losses in FY/03. In FY/04 growth was 5.2% and in FY/05 employment is expected to exceed the peak in FY/02. Growth is expected to continue for the forecast with average annual growth of 2.8%. While permitting at the City, particularly residential, is expected to decline other areas will experience strong growth. The City information on permits, does not include several important measures of construction. It does not include projects built by the State of New Mexico, the federal government, construction of roads, or water/sewer systems. All of these projects do generate gross receipts.

LOCAL ECONOMIC VARIABLES HISTORY AND FORECAST By Fiscal Year BBER FORUNM October 2004 Baseline

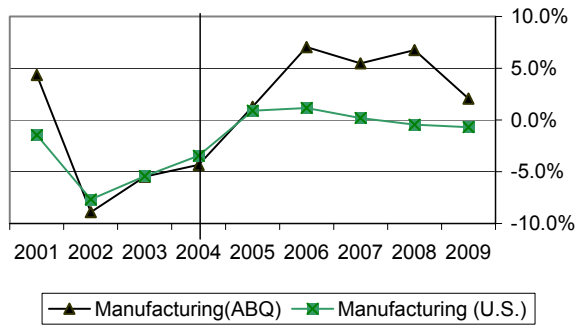
Albuquerque MSA vs. U.S. Unemployment Rates



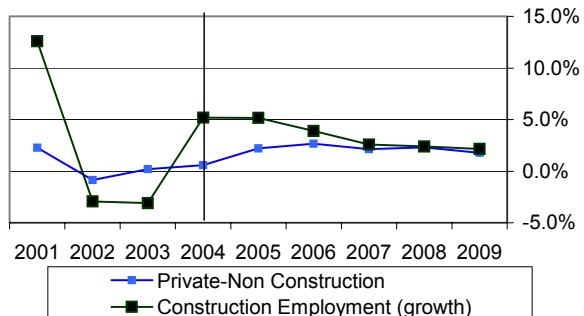
Albuquerque MSA vs. U.S. Employment Growth



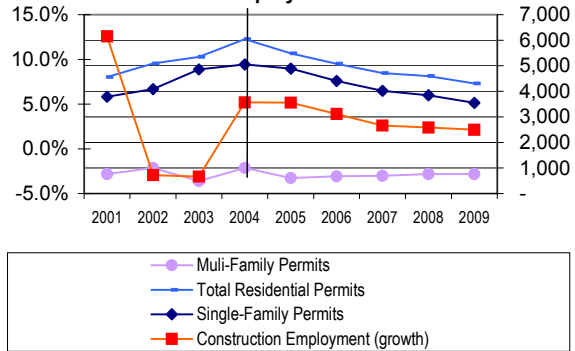
Albuquerque MSA vs. U.S. Manufacturing Employment Growth



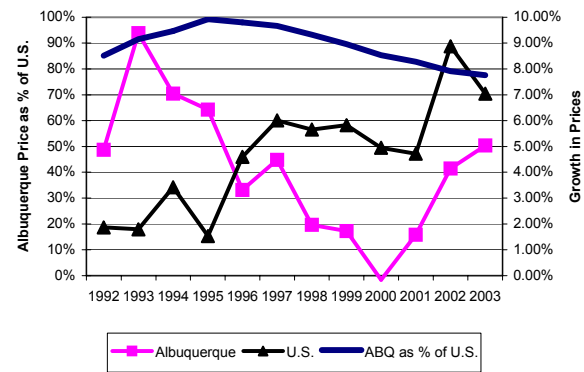
Albuquerque MSA Construction and Private Non-Construction Employment Growth



Residential Construction Permits in City and Construction Employment Growth in MSA



Comparison of Growth in Existing Home Sales Price



Employment by NAICS Categories (in thousands)											
FISCAL YEARS	History					Forecast					Growth 2000
FISCAL YEARS	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	to 2004
Total Nonagricultural (Does not include military)	349.425	358.950	358.008	359.283	362.883	371.640	381.626	389.528	398.010	405.178	0.9%
Natural Resources And Mining And Construction	21.992	24.758	24.033	23.292	24.500	25.767	26.774	27.468	28.126	28.730	2.7%
Manufacturing	26.792	27.958	25.467	24.075	23.033	23.330	24.973	26.339	28.118	28.699	-3.7%
Computer And Electronics Manufacturing	11.450	12.350	11.258	10.433	9.792	9.757	9.786	10.101	9.964	9.759	-3.8%
Wholesale Trade	13.733	13.975	13.492	13.175	12.833	12.858	13.009	13.044	13.095	13.154	-1.7%
Retail Trade	40.425	41.300	40.992	41.600	41.717	42.296	42.918	43.712	44.177	44.642	0.8%
Transportation, Warehousing, And Utilities	11.050	10.825	10.358	10.458	10.333	10.478	10.532	10.600	10.693	10.790	-1.7%
Information	10.875	11.233	11.400	10.542	10.008	9.684	10.050	10.289	10.706	11.211	-2.1%
Financial Activities	19.483	19.567	19.033	18.775	18.950	19.139	19.575	19.654	19.847	20.108	-0.7%
Professional, Scientific And Technical Services	26.592	26.858	26.958	27.783	28.383	29.058	29.782	30.574	31.477	32.355	1.6%
Management/Administratio/Support	30.842	31.725	30.433	29.292	28.775	30.099	31.095	31.857	32.805	33.328	-1.7%
Educational And Health Services	36.975	37.942	40.308	41.950	43.975	46.005	47.343	48.600	49.769	50.876	4.4%
Leisure And Hospitality	32.542	33.667	34.092	35.042	35.983	36.690	37.353	37.693	38.063	38.546	2.5%
Food Services And Drinking Places	25.133	25.950	26.475	27.200	28.000	28.563	29.167	29.513	29.909	30.405	2.7%
Other Services	10.792	11.008	11.242	11.617	11.867	12.082	12.323	12.570	12.751	12.946	2.4%
Government	67.333	68.133	70.200	71.683	72.525	74.155	75.900	77.125	78.377	79.785	1.9%
Local Government	31.492	32.200	33.808	34.575	35.017	35.947	36.636	37.426	38.221	39.031	2.7%
State Government	21.817	22.233	22.558	23.067	23.725	24.068	24.673	25.078	25.487	26.033	2.1%
Federal Government	14.025	13.700	13.833	14.042	13.783	14.139	14.592	14.621	14.669	14.720	-0.4%
Military Employment, Thousands	6.575	6.407	6.432	6.603	6.688	6.678	6.638	6.627	6.627	6.627	0.4%

Economic Variables Underlying the Forecast

	2002	2003	2004	2005	2006	2007	2008	2009
National Variables								
Real GDP Growth	0.8%	2.3%	4.4%	3.8%	3.1%	3.1%	3.2%	3.1%
Federal Funds Rate	2.3%	1.4%	1.0%	2.0%	3.1%	3.5%	3.7%	4.4%
10 U.S. Bonds	5.0%	4.0%	4.3%	4.5%	5.1%	5.3%	5.6%	6.2%
CPI U	1.8%	2.2%	2.2%	2.5%	1.4%	1.6%	1.8%	2.0%
Unemployment Rate(U.S.)	5.5%	5.9%	5.8%	5.4%	5.4%	5.6%	5.6%	5.6%
Manufacturing	-7.7%	-5.4%	-3.5%	0.9%	1.2%	0.2%	-0.4%	-0.7%
Consumer sentiment index--University of Michigan	90.23	85.08	93.15	93.94	91.10	88.60	87.88	86.65
Exchange Rates	1.07	0.98	0.87	0.83	0.81	0.80	0.78	0.77
Current Trade Account	-409.57	-517.93	-571.93	-703.67	-691.44	-682.86	-682.59	-686.87
Wage	3.6%	2.9%	2.8%	2.6%	3.1%	3.3%	3.3%	3.3%
output per hour	3.7%	3.8%	5.3%	2.4%	2.0%	2.5%	2.7%	2.7%
Albuquerque Variables								
Employment Growth and Unemployment in Albuquerque MSA								
Total Non-Ag ABQ	-0.3%	0.4%	1.0%	2.4%	2.7%	2.1%	2.2%	1.8%
Private-Non Construction	-0.9%	0.2%	0.6%	2.2%	2.7%	2.1%	2.3%	1.8%
Construction Employment (growth)	-2.9%	-3.1%	5.2%	5.2%	3.9%	2.6%	2.4%	2.1%
Manufacturing(ABQ)	-8.9%	-5.5%	-4.3%	1.3%	7.0%	5.5%	6.8%	2.1%
Unemployment Rate (Alb.)	4.3%	5.1%	5.2%	4.7%	4.6%	4.8%	4.8%	4.9%
Construction Units Permitted in City of Albuquerque								
Single-Family Permits	4,087	4,855	5,050	4,884	4,404	4,023	3,844	3548
Multi-Family Permits	1,002	493	1,000	603	679	695	757	764
Total Residential Permits	5,089	5,348	6,050	5,487	5,083	4,718	4,601	4,312

Source Global Insight and FOR-UNM October 2004 Baseline Forecasts

UPSIDE AND DOWNSIDE REVENUE RISKS

How well the Albuquerque economy performs over the next few years depends partially on what happens at the national and the regional level. The GI and BBER assumptions are the basis for these forecasts. There are also some specific risks to the forecast, both positive and negative. Below is a partial listing that could have a significant positive (upside) or negative (downside) impact on the economy and the city's revenues.

UPSIDE

- The national economy could grow more rapidly. The GI optimistic scenario has only modest improvements in the short run with inflation and interest rates slightly below the baseline. The probability assigned to this scenario is 20%.
- High tech industry growth comes back faster than expected. Albuquerque lands further major investments by producers of semiconductors and/or other high tech industries and investments by their suppliers and customers. Existing manufacturing operations of all types expand, creating a more diversified manufacturing base.
- Albuquerque succeeds in attracting more investments in regional distribution centers and regional headquarters.
- Construction activity remains at or above current levels. There is a continuance and expansion of high-tech investment and more public sector construction. In migration creates a demand that holds up residential housing.
- Business travel also expands as the economy revitalizes and more business activity occurs.
- Kirtland AFB remains at or above current employment levels.
- Sandia National Laboratories is able to increase current staffing above anticipated levels. We are already seeing jobs move to Sandia. There are many security and anti-terrorism projects at the labs. Additional success in the transfer of technology to the private sector will create more jobs. The construction of the Center for Integrated NanoTechnology (CINT) and the MESA project

DOWNSIDE

- The economy continues to grow slowly, and nationally fails to create more jobs. High oil prices choke off consumption and the weak dollar helps fuel inflation.
- Little, if any, in migration occurs. Given slowdowns in growth, this starts the downside of the construction cycle. Currently, the value of construction permits is dominated by residential construction; therefore a slowdown in residential construction will have more of an impact on total construction. Also, the value of permits for commercial and public building is weak.
- The creation of the deduction for food and medical services from the GRT base creates distribution problems in the short-run.
- Impact fees push residential development away from the City of Albuquerque. Development in the unincorporated Bernalillo county increases due to impact fees and the higher differential in GRT rates.
- The State in the upcoming legislative session, will look at ways of
- Federal cutbacks, particularly in Medicare and Medicaid, hit New Mexico's health services industry impacting medical facilities and personnel in Albuquerque.
- Tourism continues to be weak as people choose not to go on vacations. Business travel to Albuquerque and New Mexico falls sharply. Demand for regional artwork and foods decline.
- Consolidations, deregulation or restructurings impact activity in banking, transportation and/or public utility sectors reduce employment and income growth. Franchise fees become harder or impossible to collect on some utilities. This has already occurred in the cable industry where the Federal Communications Commission ruled that cable Internet connections are informational service and, therefore, not subject to local government franchise fees, QWEST is not paying franchise fees on its DSL internet service.
- The state legislature takes food, medical services and/or other goods or services out of the GRT tax base.
- The health services sector could face more consolidations.
- Internet retail sales on taxable items become more prominent and/or the federal government makes all sales on Internet based business non-taxable.

The section on alternative scenarios explores the effects on City revenues and expenditures of some of these possibilities.

REVENUE OUTLOOK

PROJECTED REVENUES FOR FISCAL YEARS 2005-2009

The following Baseline Forecast Revenues table includes actual FY/03 and FY/04 receipts, the revised estimates for FY/05, and the baseline forecast receipts for fiscal years 2006-2009. In all cases, the figures reflect the accrual to revenues required for compliance with the tax revenue standard of the Governmental Accounting Standards Board. Directly to the right of the estimates are the rates of growth of the revenue projections. These factors were in many cases based on the economic forecast assumptions summarized in the table at the end of this section. The assumptions and revenue estimating methodology is provided in greater detail in the following table of economic variables.

General Fund revenues in FY/03 had growth of 4.8% with growth in GRT revenues of 4.6%. Total FY/03 General Fund revenues were \$332.9 million. Recurring revenues were 4.9% above FY/02 recurring revenues. However, it should be noted that General Fund revenues did not grow in FY/02. In FY/04 revenues are 11.5% above FY/03. This is primarily the result of growth of 9.2% in GRT and the shift of a mill in property tax from debt service to operating. FY/04 recurring growth is somewhat slower at 9.4%. The non-recurring revenues include \$2.2 million for an IRB settlement, \$4 million in GRT, \$1.4 million in transfers from the transportation tax, and \$1.3 million in one-time transfers. Growth in total revenues in FY/05 is projected to be 9.5%. Growth in FY/05 is driven by the addition of the quarter cent public safety tax.

The long-term baseline forecast anticipates that General Fund recurring revenue growth will be 1.8%, 2.7%, 2.9%, and 3.1% in FY/06-FY/09 respectively. FY/06 is small due to the reduction of 1/16 cent in GRT. The remaining years are driven by general economic conditions.

Snapshot of Forecast.

- 1) Gross receipts. Growth in FY/05 above the estimated budget is driven by the unexpectedly large growth in FY/04. In FY/05 the first eleven months of the public safety tax provides a \$28 million increase in revenues. \$4 million of total GRT is included as one-time money due to State audit compliance efforts and the early payment of tax rebates from the federal government. An amount near this is included in GRT. The GRT growth rate for FY/05 is 3.1%. In FY/06 growth is limited by the reduction of GRT by a 1/16 cent tax reduction, this is approximately a reduction of \$7.6 million.
- 2) Natural gas franchise reflects increases in gas prices, the new franchise agreement in FY/03 and a rate increase in the spring of 2004. QWEST continues to be sluggish.
- 3) Charges for services decline in FY/05 as a result of the loss of convention center revenues. These are offset in part by reduction in expenses with the contracting out of the operation of the convention center.
- 4) New Projects coming on line. The balloon museum in FY/06 is the biggest revenue generator; other projects include Animals of Africa, and Tingly Beach. Other new exhibits are included for half of FY/05 and full years for the remainder of the forecast.
- 5) Other sectors grow by selected inflation rates.

More detail on each sector is presented in the following text.

General Fund Revenue Estimates

Gross Receipts Tax. The gross receipts tax (GRT) revenues for FY/04 were stronger than anticipated pushing up the base for FY/05. The growth in the first quarter of FY/05 was down 1.5% the non-construction component was down more. Growth for the year is estimated at 3.1% with the remainder of the year increasing about 4%. FY/06 has underlying growth of 3.5% which is offset by the removal of 1/16 cent in GRT, making the growth rate only 0.8%. Growth in the ¼ cent public safety GRT in FY/06 is 12.9 percent as only 11 months of revenue was received in FY/05. Growth in the remaining years is moderate, the rate of growth for FY/07 is 3.1% and FY/08 is 3.4% and FY/09 is 3.5%.

The economic models used to forecast GRT use information about the economy from the national GI forecast and the BBER FOR-UNM forecast of the local economy. Gross receipts from construction projects are estimated separately from gross receipts from all other sources. This is done to capture the factors that affect construction.

Local employment and incomes are major indicators of the level of non-construction gross receipts. These represent money that can be spent by local residents. Seasonality has a major impact in addition to changes in employment or income. Christmas spending makes the receipts accrued to December and January (actually on November and December spending) the largest of the year. The models also estimate the impact of changes in state taxation policy. A discussion of state tax policy is contained in the section "Risks to Forecast". Also, the impact of the prescription drugs deduction from GRT is built into the estimates as well as the one-time tax amnesty program, which resulted in a nearly \$2 million increase in GRT in November of 1999.

The construction GRT model is based on housing construction and construction employment. Care is taken to account for the difference due to large construction projects such as Intel and the Big-I that have large impacts on GRT revenues for short periods. The estimates of construction values for the forecast are derived from the forecasts of residential housing provided by the BBER. Adding the forecasts for construction and non-construction provides GRT revenues.

Property Tax. Property tax revenues for FY/04 reflect that one mill of property tax was shifted from debt service to operations. The level of growth for the remaining years is kept at 2.5%.

Franchise Taxes. Franchise taxes in general came in above the FY/04 approved budget. Natural gas prices experienced in FY/04 are expected to continue in FY/05 along with a rate increase that took place in the spring of 2004. It is expected that there will be some moderate reductions in natural gas prices for FY/06 through FY/08 FY/09 will increase with the number of customers. Electricity remains at budget; the slowdown for FY/04 comes from a rate decrease. Cable revenues continue strong, with a 275 thousand per year payment made in each year FY/07 through FY/09 to repay \$1.1 million one-time receipt in FY/03. The telephone franchise is the weakest franchise.

QWEST was below the expectations for FY/03 and FY/04. This is despite two rate increases. Competition from mobile and non-payment of franchise on DSL high-speed Internet connections are the primary reasons for this. The Five-Year Forecast for FY/05

lowered the revenue estimates by \$430 thousand. It is not known how much impact the new number portability rules will have on landline telephones, but revenue growth was reduced by 2% in FY/06 and kept at zero for the remainder of the forecast. Other franchises include other telephone companies with weak revenues being offset by strong revenues for NM Utilities. Long run growth for all of these sectors is based on expected long-term growth in the number of customers.

Payments-In-Lieu-Of-Taxes (PILOT). The largest source of revenues in PILOT is the water/wastewater utility. With the creation of the Water Authority the equivalent of a 4% franchise is now collected. Growth has been strong, lead by increases in water rates, which are expected to remain relatively constant for the remainder of the forecast and growth limited to 2.0% for the forecast period. This accounted for \$6.3 million in the FY/05 approved budget.

Building Permits. Building inspection permit revenues have held up stronger than was forecast in the past three years. In FY/03 the permit fees were increased to reflect an increase in fees similar to the structure in Bernalillo County. This was anticipated to increase fees across the board by about 30%. In addition to this increase, permitting also was up and building permit revenue increased 54.2%. Much of this was from the specific category "building permits" that had a 50% increase in rates. Other categories experienced slower growth. Permits revenues in the Five-Year Forecast for FY/05 are adjusted up to reflect an increase in the base FY/04 numbers. The assumption is that permits will decrease by 9.3% in FY/05, though this is \$700 thousand above the FY/05 approved budget. FY/06 and FY/07 have decreases of 7.4% and 7.2% respectively. FY/08 is flat and FY/09 as a 1.5% increase. This is based on expected slowdowns in residential permitting based on the FOR-UNM forecast.

As a note, major construction projects planned by the state or the federal government, or road projects do not fall under the City of Albuquerque permitting process and the City receives no permit revenue. Gross receipts taxes are paid both by the state and the federal governments on construction projects.

Other Permits. Included in this area are revenues from permits and licenses for restaurant inspections, animal control, liquor establishments, business registrations, use of City right of way, and other miscellaneous fees. In FY/04 revenues picked up, in part due to improvements in billing and collections. FY/05 was adjusted up from the approved budget to reflect the FY/04 increase and kept at growth of 1.5% for the remainder of the forecast.

Other Intergovernmental Assistance. Other intergovernmental assistance includes state shared revenues (excluding GRT), grants and county shared revenues. This category has declined in recent years due to changes in state policy and where grant revenue is received. In FY/04 a state corrections tax was to be shared with the City. Revenues for this were not received, and revenues were reduced. If these revenues are received it is expected that they will be posted to a separate fund and directed to corrections department. These revenues are allowed to grow at 1.5% per year.

GENERAL FUND REVENUE ESTIMATES
BASELINE FORECAST
REVENUES in (000's)

	Actual	Unaudited		FY/05 Budget	FY/05 Five-Year	FY/06	FY/07	FY/08	FY/09	Growth Rates						
	FY/03	Actual/04								FY/03	FY/04 actual	FY/05	FY/06	FY/07	FY/08	FY/09
Gross Receipts Taxes	235,373	252,801	253,568	260,638	261,927	270,159	279,383	289,081		4.0%	7.4%	3.1%	0.5%	3.1%	3.4%	3.5%
Non-Recurring GRT	640	5,000	875	5,000	5,900	5,600	5,000	5,000								
GRT (not incl public safety)	236,013	257,801	254,443	265,638	267,827	275,759	284,383	294,081		4.6%	9.2%	3.0%	0.8%	3.0%	3.1%	3.4%
GRT 1/4 Public Safety*			27,600	28,709	32,421	33,440	34,581	35,782					12.9%	3.1%	3.4%	3.5%
Property Taxes	16,498	24,734	25,045	25,045	25,672	26,313	26,971	27,646		3.9%	49.9%	1.3%	2.5%	2.5%	2.5%	2.5%
Telephone Franchise	3,917	3,636	3,995	3,565	3,495	3,495	3,495	3,495		-0.2%	-7.2%	-2.0%	-2.0%	0.0%	0.0%	0.0%
Electric Franchise	5,829	5,798	5,904	5,904	5,904	6,022	6,143	6,265		2.4%	-0.5%	1.8%	0.0%	2.0%	2.0%	2.0%
Gas Franchise	2,809	4,140	3,449	4,388	4,321	4,301	4,175	4,234		48.0%	47.4%	6.0%	-1.5%	-2.0%	-2.9%	1.4%
Cable Franchise	4,274	3,245	3,367	3,367	3,468	3,280	3,369	3,460		29.7%	-24.1%	3.8%	3.0%	-5.4%	2.7%	2.7%
Other Franchise	627	876	708	894	894	911	930	948		12.4%	39.7%	2.0%	2.0%	2.0%	2.0%	2.0%
Franchise	17,457	17,695	17,423	18,118	18,081	18,009	18,110	18,402		13.6%	1.4%	2.4%	-0.2%	-0.4%	0.6%	1.6%
PILOT	5,613	6,036	6,257	6,257	6,382	6,510	6,640	6,773		3.0%	7.5%	3.7%	2.0%	2.0%	2.0%	2.0%
Building Permits	9,617	10,788	9,177	9,785	9,061	8,408	8,408	8,534		54.2%	12.2%	-9.3%	-7.4%	-7.2%	0.0%	1.5%
Other Licenses/Fees	2,662	2,928	2,840	2,972	3,016	3,062	3,108	3,154		10.7%	10.0%	1.5%	1.5%	1.5%	1.5%	1.5%
Gasoline Tax Distrs	2,481	2,330	2,497	2,377	2,413	2,449	2,485	2,523		1.8%	-6.1%	1.5%	1.5%	1.5%	1.5%	1.5%
Other Intergov'l	2,040	2,709	2,834	2,500	2,538	2,576	2,614	2,653		-15.9%	32.8%	-7.7%	1.5%	1.5%	1.5%	1.5%
Charges for Services	17,074	17,684	16,308	16,833	17,085	17,342	17,602	17,866		8.8%	3.6%	-4.8%	1.5%	1.5%	1.5%	1.5%
Revenue from New Projects					500	1,500	1,700	1,700								
Internal Service	1,330	1,032	1,071	1,071	1,071	1,106	1,143	1,181		-23.8%	-22.4%	3.8%	3.09%	3.3%	3.3%	3.3%
Indirect Overhead	13,282	14,144	14,189	14,189	14,189	14,652	15,142	15,641		-1.3%	6.5%	0.3%	3.1%	3.3%	3.3%	3.3%
Fines and Forfeitures	44	38	5	40	20	20	21	21		83.2%	-12.6%	4.1%	-50.0%	2.0%	2.0%	2.0%
Interest on Invest	746	427	1,900	1,300	1,500	1,544	1,593	1,647		-23.4%	-42.7%	204.4%	0.8%	3.0%	3.1%	3.4%
Other Miscellaneous	460	1,186	593	593	593	605	617	629		-21.2%	158.1%	-50.0%	2.0%	2.0%	2.0%	2.0%
Interfund Transfers	1,509	1,927	2,126	2,126	2,192	2,263	2,339	2,416		-56.1%	27.7%	10.3%	3.1%	3.3%	3.3%	3.3%
CIP-Funded Positions	6,084	7,356	8,815	8,815	9,087	9,384	9,698	10,018		6.1%	20.9%	19.8%	3.09%	3.26%	3.35%	3.30%
one-time Philips payment		2,246														
Total Revenue	332,909	371,063	393,123	406,367	413,647	424,942	437,156	450,666		4.8%	11.5%	9.5%	1.8%	2.7%	2.9%	3.1%
Non-Recurring Revenue	3,200	10,521	2,686	8,331	9,112	8,750	8,189	8,249		4.6%	228.8%	-20.8%	9.4%	-4.0%	-6.4%	0.7%
Recurring Revenue	329,709	360,542	390,437	398,036	404,535	416,191	428,967	442,418		4.9%	9.4%	10.4%	1.6%	2.9%	3.1%	3.1%

* Public Safety tax has 11 months in FY/05

The other source of revenue is the state shared municipal road gas tax. The other state shared gasoline tax revenue is now reported in the gasoline tax fund. This revenue source declined in FY/04 but is expected to grow by 1.5% for the remainder of the forecast. Factors influencing this are increased wholesale sales of gasoline by the Indian Pueblos and high prices that reduce consumption.

Charges for Services. Charges for services include fees charged for entry into City venues and services provided to citizens. It also includes some revenues for charges to other governmental entities. In FY/04 revenues were adjusted up from the budget to reflect some gains posted in increased services. In FY/05 full year of private management of the Convention Center reduces revenues by \$1.1 million though there are offsetting cost reductions. Growth due to new projects in the City, are broken out in a separate line "Revenue from New projects". These are revenues from new or enhanced venues. The BioPark will have the new Animals of Africa exhibit, Tingley Beach refurbishment, Asian Experience (which we assume will have panda bears). BioPark Revenues are increased by \$1 million in FY/07 by adding a \$1 surcharge to help offset the costs of the pandas. Tingley Beach may also generate some concessions revenue. The Southeast Pacific Ocean Experience is also expected to generate revenues, here estimated at \$200 thousand in FY/08 and FY/09. Also, the opening of the Balloon Museum in FY/06 is expected to have a revenue impact of \$500 thousand. In future years this revenue is expected to decline, as was experienced with the Aquarium/Botanic Gardens.

Internal Service. Internal service charges have declined as many services provided by the City have been contracted out. FY/04 was reduced from the approved budget to reflect further reductions in public works engineering and survey inspections. The rate of growth assumed from FY/05-FY/08 is the increase in wage and salary compensation as forecast by GI.

Indirect Overhead. Indirect overhead was strong in FY/04 despite a reduction for the golf fund. FY/05 is left at the approved budget with the remaining years allowed to grow with wage and salary compensation as forecast by GI.

CIP-Funded Positions. FY/05 is left at the approved budget level and the rate of growth assumed is based on the increase in wage and salary compensation as forecast by GI.

Fines and Forfeitures. The FY/05 estimate is adjusted upward to account for revenues from the new dust ordinance. This is reduced in FY/06 as it is anticipated that people will comply with the ordinance. These revenues are assumed to grow at 2% per year for the remainder of the forecast.

Interest Earnings. Interest earnings plummeted in FY/02 and FY/03. Downward revisions were made in FY/04 and FY/05 was adjusted down by \$600 thousand. They are expected to rebound somewhat as interest rates increase and cash balances increase.

Other Miscellaneous Revenues. Other miscellaneous receipts for FY/04 include the \$2.2 million one-time payment from Philips for the clawback provisions in their IRB. The recurring portion of this revenue grows at a rate of 3% in all other years.

Interfund Transfers. Interfund transfers are kept at the level in the approved FY/05 budget. Future years are estimated to increase by the rate of salaries, as forecast by GI.

EXPENDITURE OUTLOOK

EXPENDITURE ESTIMATING METHODOLOGY

The process for estimating the appropriations of the General Fund and funds subsidized by the General Fund is relatively straightforward. The forecast period covers FY/05 through FY/09. For the current fiscal year ending June 30, 2005, expenses are projected using the original appropriation as a base then adjusting to account for subsequent FY/05 appropriation adjustments (the appropriation of FY/04 encumbrances and the anticipated FY/05 mid-year appropriation adjustment bill).

FY/06 numbers were, for the most part, derived independently of FY/05 numbers. The FY/06 forecast was fashioned using the latest available information, including actual payroll information updated to mid-November with vacant positions assumed fully funded. Additionally, all subsidized funds and internal service funds receiving transfers (in) from the General Fund were analyzed independently before adjustments were made for this General Fund forecast.

The forecast beyond FY/06 is largely driven by the inflation factors applied to the FY/06 numbers used as the base. Those factors, detailed in Table A, are taken from the national forecast scenarios of the WEFA Group except for some changes made to selected rates to better reflect local costs. Three separate scenarios of the national and local economic activity are factored into the methodology to present baseline, optimistic, and pessimistic scenarios of anticipated spending. Table B includes the expenditure and revenue outlook together in a General Fund Table. Table C summarizes those expenses by major category showing the percentage growth in each.

TABLE A

BASELINE SCENARIO FACTORS	SHORT NAME	FACTORS			
		FY06	FY07	FY08	FY09
CPI - All Urban Consumers, All Items	CPI-U	1.43%	1.57%	1.83%	2.02%
EMPLOYMENT COST INDEX - Wages & Salary, Private Nonfarm	WAGES	3.09%	3.26%	3.35%	3.30%
Price Index Consumer Exp Medical Care	MEDICAL	3.08%	3.53%	3.64%	3.43%
PRICE INDEX - Consumer Expenditures, New Cars	NEW AUTO	0.99%	0.58%	1.02%	1.00%
PRICE INDEX - Consumer Exp, Transportation Services	AUTOREP	2.29%	2.42%	2.60%	2.59%
PRICE INDEX - Consumer Exp, House Oper, Natural Gas	NATGAS	-4.96%	-4.01%	-8.06%	-0.96%
PRICE INDEX - Consumer Exp, Gasoline & Oil	FUEL	-6.68%	-2.12%	-1.27%	0.03%
PPI - Fuels & Related Products, Electric Power	ELECT	1.51%	-0.32%	-0.33%	0.45%
PRICE INDEX - Govt Consumption, Noncompensation	GOVT	2.33%	2.11%	2.25%	2.33%
PRICE INDEX - Cons Exp, Tires/Tubes/Accessories/Parts	TIRES	-0.61%	-0.76%	-0.51%	-0.55%
Growth of Gross Receipts Tax Revenue	GRT	3.10%	2.96%	3.13%	3.41%

TABLE B
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
(\$000's)

	UNAUDITED ACTUAL FY04	REVISED APPROP FY05	FORECASTS			
			FY06	FY07	FY08	FY09
RESOURCES:						
Recurring Revenue	360,542	398,036	412,147	424,028	437,050	450,776
1/16th GRT Reduction			(7,612)	(7,837)	(8,083)	(8,358)
% Chng Recur'g Revenue		10.4%	1.6%	2.9%	3.1%	3.1%
Total Non-recurring	<u>10,521</u>	<u>8,331</u>	<u>9,112</u>	<u>8,750</u>	<u>8,189</u>	<u>8,249</u>
TOTAL REVENUES	371,063	406,367	413,647	424,942	437,156	450,666
% Chng Total Revenue		9.5%	1.8%	2.7%	2.9%	3.1%
BEGINNING FUND BALANCE	<u>43,125</u>	<u>64,786</u>	<u>65,671</u>	<u>24,087</u>	<u>(24,419)</u>	<u>(80,490)</u>
TOTAL RESOURCES	<u>414,188</u>	<u>471,153</u>	<u>479,318</u>	<u>449,029</u>	<u>412,737</u>	<u>370,176</u>
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	341,032	387,867	436,717	461,187	483,587	502,505
% Change Recurring Appropriation		13.7%	12.6%	5.6%	4.9%	3.9%
Non-recurring Exp/App:						
One-time Items	<u>8,370</u>	<u>17,615</u>	<u>18,514</u>	<u>12,260</u>	<u>9,640</u>	<u>9,318</u>
Total Non-recurring	<u>8,370</u>	<u>17,615</u>	<u>18,514</u>	<u>12,260</u>	<u>9,640</u>	<u>9,318</u>
TOTAL EXPEND/APPROP	<u>349,402</u>	<u>405,482</u>	<u>455,231</u>	<u>473,447</u>	<u>493,227</u>	<u>511,823</u>
UNADJUSTED FUND BALANCE	<u>64,786</u>	<u>65,671</u>	<u>24,087</u>	<u>(24,419)</u>	<u>(80,490)</u>	<u>(141,646)</u>
ADJUSTMENTS:						
Encumbrances	(1,035)	0	0	0	0	0
Unrealized Gains on Investments	375	(97)	(97)	(97)	(97)	(97)
Other Accounting Adjustments	<u>(537)</u>	<u>(389)</u>	<u>(389)</u>	<u>(389)</u>	<u>(389)</u>	<u>(389)</u>
TOTAL ADJUSTMENTS	<u>(1,197)</u>	<u>(486)</u>	<u>(486)</u>	<u>(486)</u>	<u>(486)</u>	<u>(486)</u>
ADJUSTED FUND BALANCE	<u>63,589</u>	<u>65,185</u>	<u>23,601</u>	<u>(24,905)</u>	<u>(80,976)</u>	<u>(142,132)</u>
RESERVES:						
Bus Rapid Transit (BRT)	275	0	0	0	0	0
FY/05 Reserves	0	5,921	3,921	3,921	3,921	3,921
1/12th Operating Reserve	<u>29,202</u>	<u>33,457</u>	<u>37,936</u>	<u>39,454</u>	<u>41,102</u>	<u>42,652</u>
TOTAL RESERVES	29,477	39,378	41,857	43,375	45,023	46,573
UNRESERVED FND BALANCE	<u>34,112</u>	<u>25,807</u>	<u>(18,256)</u>	<u>(68,280)</u>	<u>(125,999)</u>	<u>(188,705)</u>
1/12th Operating Reserve	29,117	33,790	37,936	39,454	41,102	42,652
Recurring Surplus/(Deficit)	19,510	10,169	(32,182)	(44,996)	(54,620)	(60,087)

TABLE C
GENERAL FUND
EXPENSES BY MAJOR CATEGORY
(\$000's)

	UNAUDITED ACTUAL FY04	REVISED APPROP FY05	FORECASTS							
			FY06		FY07		FY08		FY09	
PERSONNEL	220,439	248,415	258,355	4.0%	266,776	3.3%	275,702	3.3%	284,782	3.3%
OPERATING	47,564	56,736	49,992	-11.9%	50,789	1.6%	51,633	1.7%	52,658	2.0%
CAPITAL	1,831	13,382	0	na	0	na	0	na	0	na
TRANSFERS	79,568	83,270	98,111	17.8%	106,371	8.4%	110,165	3.6%	115,683	5.0%
ADDITIONAL ITEMS FACTORED	0	3,679	48,773	na	49,511	na	55,727	na	58,700	na
GRAND TOTAL	349,402	405,482	455,231	12.3%	473,447	4.0%	493,227	4.2%	511,823	3.8%

The largest driving force in increasing operational expenses is the City's General Obligation Bond Program. Capital projects coming on-line in FY/06 will require a little over \$13.0 million in increased funding. These include opening new facilities, lighting new traffic poles and signals, and staffing new exhibits. Table D details the incremental operational costs anticipated for the listed capital projects. The estimates were extracted from data submitted by departments during the 2005 General Obligation Bond process and then updated by key fiscal staff in respective departments. While the City's capital program is beginning to focus more on rehabilitation and repair of existing facilities than on new facilities, this forecast assumes some new projects in out-years will require additional operating dollars.

Another factor driving operating costs are initiatives and additional needs of the departments. Anticipated costs for FY/06 are just over \$5.5 million. Table E identifies the initiatives and the associated costs.

TABLE D

Project Title	FY/05	FY/06	FY/07	FY/08	FY/09
Cultural and Recreational Services					
Balloon Museum	996.5	2,412.1	(1,031.0)		
Museum Expansion	347.3	538.7	(150.0)		
Museum Renovation	-	-	-	139.7	
Erna Ferguson Library	497.3	-			
Animals of Africa - BioPark	998.2	112.0			
Period Farm - BioPark	193.7	-			
Japanese Garden Phase II - BioPark	-	-	193.2	(22.0)	
Asian Experience * and Panda Bear- BioPark	-	1,686.0	(370.0)		
Rio Grande Australian Exhibit - BioPark	-	-	38.0	28.0	
South Pacific Ocean Experience - BioPark	-	-	-	790.6	(210.0)
Tingley Renovation - BioPark	-	534.1	(57.0)		
* Amount needed will be \$423,000 without the Pandas					
Environmental Health					
Groundwater remediation system	-	240.0	-	-	-
Finance and Administrative Services					
Citizen Services Operating Staff (DFAS)	1,908.0	1,975.0			
Replace Mission Support Systems			11.0	2.0	
Data Center Disaster Recovery				16.0	
1999 Fiber Infrastructure & Terminating Equipment				1.0	
Server Consolidation			10.0	1.0	
City Computer Room Environment, Equipment & Control			19.0	16.0	
City Computer Systems Continued Power			19.0	14.0	10.0
Constituent Services & Financial/Performance Management			100.0	200.0	100.0
2003 Fiber Infrastructure & Terminating Equipment			37.0	60.0	27.0
Network Management System					12.0
2003 Routing & Switching Equipment			35.0	13.0	13.0
Security Systems			11.0	4.0	
Server Technology Update				16.0	25.0

TABLE D

Project Title	FY/05	FY/06	FY/07	FY/08	FY/09
2001 Fiber Infrastructure & Terminating Equipment				4.0	
ERP/E Government			61.0	47.0	
Financial Performance Management Phase II			350.0	350.0	200.0
Emergency Business Continuity				15.0	30.0
Computer Systems Refresh				50.0	100.0
Radio Technology Refresh				30.0	30.0
Core Network Infrastructure				40.0	60.0
Network Telecomm Refresh				30.0	50.0
Blue Collar Email				70.0	70.0
Centralized Security System				40.0	40.0
Family and Community Services					
Taylor Ranch Comm. Ctr. (F&CS)	544.3	(107.5)			
East San Jose Comm Ctr (F&CS)	95.6	-			
La Mesa Child Dev. Ctr (F&CS)	179.2	(15.0)			
Mesa Verde Comm. Ctr. (F&CS)	54.7	25.0			
East Central MSC (Dental Clinic) (F&CS)	35.0	-			
Manzano Mesa Child Dev Ctr (F&CS)	298.3	(30.0)			
Westside Sobering Services (F&CS)	69.2	50.0			
N. Domingo Baca CC - new facility				787.0	(400.0)
Wells Park CC (Sept CY05) - incr. 10% sq ftge		5.0			
West Mesa (Sep CY05) - 30% inc & HVAC cont & furnishings		271.0	(250.0)		
Heights CC (Sep CY05) - 50% inc & HVAC cont		25.0			
Thomas Bell CC GYM				50.0	
J. Marshall MSC - Cuidiando CCC 10% inc (Sep CY05) & HVAC cont		20.0			
Fire					
Double Eagle Airport	-	2,193.8	1,023.3		
Municipal Development					
Facilities coming on line - Fire stations	-	30.0	-	-	-
Security - Museum	-	31.0	-	-	-
Security - Tingley	-	Unknown	-	-	-
Street Medians (Parks & Rec)	-	30.0	30.0	30.0	30.0
Parks and Recreation					
Bosque Reclamation - Open Space Fund 851	259.3	345.0	132.0	(213.0)	-
Open Space Land Fencing and Protection	396.4	196.0	122.0	(74.0)	-
Open Space Facility Renovations and Improvements	30.5	62.9	(28.0)	-	-
Open Space Visitors Center Renovations		81.0	82.5	-	-
Balloon Fiesta Park Northern Launch Field	100.0	100.0	(100.0)	-	-
Park Development - Hih Priority	105.0	559.0	(359.0)	200.0	(400.0)
New Park Acreage	196.5	681.6	570.0	570.0	570.0
Modular Skate Park 3 @ \$20,500	-	62.0	-	-	-
Westside Skate Park	-	87.0	-	-	-
West Mesa Aquatic Center Phase II	-	307.0	7.7	-	-
ADO Tennis Courts - Electric Utility	-	4.8	-	-	-
Jerry Cline Tennis Center	-	-	-	48.9	-
Westside Bullhead Soccer/football Complex	-	-	-	-	276.0
8-12 field Softball Complex	-	-	-	-	770.0
Sierra Vista West Swimming and Tennis Complex	-	-	-	-	9.4
Los Altos Swimming Pool	-	-	-	-	18.8
Wilson Swimming Pool	-	-	-	-	7.6
Montgomery Swimming Pool	-	-	-	-	6.7
Public Works Department					
Maintenance of new traffic signals	-	36.0	36.0	-	-
Maintenance of new lights	-	24.0	24.0	-	-
Private lights from developer process	-	15.0	15.0	-	-
Maintenance of new/expanded roadways	-	115.0	115.0	-	-
Maintenance of new drainage systems	-	251.4	251.4	-	-
Fourth & Aspen fuel station renovation/CNG Fueling (utilities & maint.for facility)	-	35.0	-	-	-
Transit					
Westside Transit Facility (TD)	384.6	38.5	-	-	-
Seniors					
Palo Duro Fitness Center	56.0	11.0			
Centralized Kitchen			50.0		
Los Volcanes Senior Fitness Center			102.0		
Total CIP Costs	7,745.7	13,038.4	1,100.1	3,354.2	1,445.5

TABLE E

Project Title	FY/05	FY/06	FY/07	FY/08	FY/09
Chief Administrative Office					
Unification Election (CAO)	250.0				
Office Of Emergency Mgmt - Grant Requirement		102.5			
City Support					
MCJCC Contract Funding (City Support)	69.0				
Council Services					
Council Services	200.0				
Cultural Services					
Tricentennial (CSD) from IRB Settlement Reserve	100.0		(100.0)		
Tricentennial- Reserved	600.0	300.0	(900.0)		
Concert Band Funding (CSD)	5.0				
Center for the Theatre (CSD)	25.0				
Kimo Theater (CSD)	100.0				
Lo Maduro de la Cultura (CSD)	17.0				
Music Festival (CSD)	261.7	112.0			
Veteran's Memorial Events (CSD)	5.0				
Panda Bear Exhibit (CSD) *	98.0				
Botanical Garden Manager (CSD)	70.5				
Taylor Ranch Library 44 to 56 hrs/wk (CSD)	253.1				
Spanish Exhibition at Museum (CSD)	127.0				
Explora (CSD)	750.0				
* Moved to CIP Coming on Line in FY/06					
Environmental Health					
Decrease Euthanasia/ Increase Adoption/Staffing (EHD)	900.0	-	-	-	-
Household Hazardous Waste (EHD)	91.0	-	-	-	-
Environmental Engineering Svcs. (Methane) (EHD)	50.0	-	-	-	-
Animal Control Reserve Officer Program (EHD)	20.0	-	-	-	-
Family and Community Services					
APS Title 1 Program (F&CS)	66.0	-	-	-	-
Community Center Staffing Needs Survey (F&CS)	50.0	(50.0)	-	-	-
Finance and Administrative Services					
Convention Ctr Contract (DFAS)	2,041.1				
Fiscal Agent Fees (DFAS)	133.0				
Grant Accountant		65.0			
Fixed Asset Accountant		65.0			
Contract Dollars (Accounting)		100.0			
Human Resources					
Additional Operating Costs		33.6	(5.5)		
Internal Audit					
Audit Supervisor (IA)	73.0				
Inspector General (IA)	250.0				
Legal					
Safe Cities Strike Force(Legal)	163.5	Increase Unknown			
Metropolitan Detention Center					
Increase Staffing to Reduce OT (MDC)	344.1				
Municipal Development					
Construction Inspector 3 Positions (DMD)	86.1				
Security Officers (1st & Gold) (DMD)	98.3				
Silver Ave. Planting Strips (DMD)	9.0				
Impact Fee Legislation (E16 & E13) (DMD)		111.0			
Parks and Recreation					
Urban Forest (PR)	143.7				
Sports Official Pay Increase (PR)	71.1				
Swimming Pool Needs (PR)	129.0				
Serve Baseball Teams w/Sportsplex Closing(PR)	50.0				
Dog Park Initiative - Pilot		150.0			
Prairie Dog relocation and management- park		50.0			
Park Monitors - pilot (6 @1400 hrs temp employees)		60.0			
Planning					

TABLE E

Project Title	FY/05	FY/06	FY/07	FY/08	FY/09
LITTER/Proactive Code Enforcement(Planning)	445.3				
Upgrade of one Code Enforcement Officer to Supervisor status (Planning)	21.0				
4th street Corridor (Planning)	150.0				
Safe City Strike Force	39.8				
Impact Fee Legislation (two M13)		86.2			
Fiscal Analyst M15		61.5			
Brownsfield Planner M15		61.5			
Comprehensive revisions to adopted plans in accordance with Planned Growth Strategy		200.0			
Police					
Attrition cadet classes (APD)	496.9				
Reduce PSAs (APD)	(288.4)				
Increase Communication Staff (APD)	80.0				
Behavioral Services Contracts		75.0			
SID Funding to replace decreases in federal and state seizure funds		350.0			
Victim Assistance Unit funding to replace grant funds		160.0			
Community policing program Manager funding to replace grant funds		80.0			
Evidence Traq software and LIMS SQL License		20.0			
Crime Free Multi Hosing Program		220.0			
Licensing and maintenance for software		250.0			
Public Works					
Pedestrian Street Lighting (PW)	100.0				
LITTER/Street Sweeping(PW)	259.8				
KIVA Permitting Software (PW)	75.0				
Director/Finance Staff (PW)	200.0	(135.0)			
Shop Equipment (PW-Fleet Maint.)	85.0	(20.0)			
Fuel Station Upgrade/Maint. (PW-Fleet Maint.)		110.0			
War on Weeds		200.0	50.0		
Senior Affairs					
Senior Olympics	8.0	25.3	16.3	(49.6)	
Transit					
Rapid Bus (44,578 Hrs.Transit)	1,834.4	1,824.0			
Rapid Bus Support (26,280 Hrs -Transit)	645.0	645.0			
Trolley Service Pilot Program	75.0	220.0			
Total Initiative Costs	11,927.1	5,532.6	(939.2)	(49.6)	-

Negotiated salary increases account for \$7.9 million increase while additional health care costs are anticipated to cost the General Fund an additional \$2.7 million. See Table F for a five year history of compensation adjustments by union series. Transfers to other funds are also expected to increase. The transfer to Transit is expected to increase \$5.1 million with the implementation of rapid bus and rapid bus support services. The transfer to the Metropolitan Detention Center is expected to increase \$3.6 million primarily due to an anticipated increased inmate population. The transfer to the Parking fund slightly increases by \$728 thousand. The cost of Risk is also expected to increase \$2 million. The transfer to the Capital Acquisition Fund for Basic Services is restored to the FY/03 percentage with a \$3.4 million impact on the General Fund.

TABLE F

[illegible]

With the imposition of the ¼ Cent Public Safety Tax in FY/05, the City budgeted \$27.6 million in FY/05 with the receipt of eleven months of revenue. With the additional month to be received in FY/06 and the expected increase in gross receipts tax, the City is expecting to budget an additional \$4.8 million in public safety money in FY/06.

Included in the ¼ Cent will be funding to increase the number of budgeted sworn officers to 1,100 by June, 2006. The 1,100 officers consists of the 955 General Fund positions, the 45 additional sworn officers budgeted from ¼ Cent Public Safety money in FY/05, the 35 additional sworn officers budgeted from ¼ Cent Public Safety money in FY/06 per the schedule attached to ¼ Cent Public Safety legislation, 20 officers moved from Open Space and an additional 45 officers budgeted from the ¼ Cent Public Safety money in FY/06 that were scheduled to be funded in FY/07 and FY/08 per the schedule attached to the ¼ Cent Public Safety legislation.

**REVENUES AND EXPENDITURES
UNDER ALTERNATIVE SCENARIO**

ALTERNATIVE SCENARIOS

Alternative scenarios help us understand how unanticipated events can influence the local economy and the City's budget. The local economy has a strong direct impact on GRT and construction related revenues. It also affects through inflation all of the internal revenues that are used to fund employees.

GI prepares an optimistic and a pessimistic scenario. These form the basis for our scenarios. Added to this are possible local events, primarily losses or gains in employment that are not incorporated in the baseline. These events are presented below in the separate sections on the optimistic and pessimistic scenarios.

On the expense side, the development of the forecasts is somewhat different. The estimates of expenditures are not based on statistical models but on the expectations of the cost of City operations. In this presentation the expenditure side scenarios are driven by the GI price forecasts.

OPTIMISTIC SCENARIO

This scenario is based on the GI high growth scenario that is assigned a probability of 20%. This scenario has modest increases in growth led by productivity increases and low inflation.

National Assumptions

- Real GDP growth is only slightly above the baseline.
- Inflation rates are low, wage pressure is held in check by low inflation and productivity increases
- Because of the check on inflation FRB policy is not as aggressive.
- The unemployment rate is below baseline at about 5.2%
-

Local Assumptions

- Add 75 jobs/quarter to computer/electronics sector, FY/06 to FY/09
- Add 50 jobs/quarter to manufacturing, FY/06 and FY/07 for Biotech
- Add 240 jobs/year to health services, FY/06 to FY/09
- professional and scientific services for MESA at SNL Adds 50 jobs in 2005:Q3, 100 jobs in 2005:Q4, 300 jobs in 2006:Q1, and 600 jobs in 2006:Q2.

Specific Revenue Assumptions

- Building permits continue with modest growth in the future years
- GRT growth is slower, but model result limit growth due to low inflation.
- Charges for services are increased to higher revenues from newly opened venues.

The optimistic scenario forecast is summarized in the following tables:

OPTIMISTIC SCENARIO FACTORS

GLOBAL INSIGHT OPTIMISTIC SCENARIO						
		2005	2006	2007	2008	2009
All Items	CPI-U	2.24%	0.86%	1.22%	1.49%	1.69%
Medical Care	MEDICAL	2.70%	2.61%	3.05%	3.18%	2.98%
Transportation	Autorep	1.76%	1.80%	2.13%	2.31%	2.28%
New Cars	NEWAUTO	-0.11%	0.62%	0.31%	0.73%	0.62%
Natural Gas	NATGAS	8.09%	-6.89%	-4.97%	-9.06%	-1.81%
Gasoline & Oil	FUEL	6.02%	-9.65%	-2.62%	-1.58%	-0.17%
Tires/Tubes/Accessories/Parts	TIRES	0.52%	-1.06%	-1.03%	-0.81%	-0.90%
Employment Cost Index-Wages & Salary, Private Nonfarm	WAGES	2.48%	2.95%	3.27%	3.46%	3.41%
PPI-Fuels & Related Products Electric Power	ELECT	3.19%	0.76%	-0.81%	-0.76%	-0.05%
PRICE INDEX-Govt Consumption Noncompensation	GOVT	3.13%	2.01%	1.93%	2.12%	2.18%

	Actual/04	FY/05 Five-Year	FY/06	FY/07	FY/08	FY/09	Growth Rates						
							FY/03	FY/04 actual	FY/05	FY/06	FY/07	FY/08	FY/09
Gross Receipts	257,801	265,638	267,782	277,615	287,541	295,584	4.6%	9.2%	3.0%	0.8%	3.7%	3.6%	2.8%
Public Safety GRT	0	28,709	32,415	33,669	34,972	35,968				12.9%	3.9%	3.9%	2.8%
Taxes	48,465	49,420	50,135	50,832	51,722	52,820	7.8%	22.5%	2.0%	1.4%	1.4%	1.7%	2.1%
Shared	5,039	4,877	4,950	5,024	5,100	5,176	-7.0%	11.5%	-3.2%	1.5%	1.5%	1.5%	1.5%
Permits	13,716	13,760	14,020	14,286	14,332	14,546	42.1%	11.7%	0.3%	1.9%	1.9%	0.3%	1.5%
Charges for Services	17,684	16,833	17,685	18,942	19,402	19,666	8.8%	3.6%	-4.8%	5.1%	7.1%	2.4%	1.4%
Intra City	17,103	17,386	17,452	18,021	18,624	19,238	-13.5%	6.1%	1.7%	0.4%	3.3%	3.3%	3.3%
Misc	1,652	1,933	2,113	2,180	2,248	2,306	-21.0%	32.2%	17.0%	9.3%	3.2%	3.1%	2.6%
CIP Funded	7,356	8,815	9,087	9,384	9,698	10,018	6.1%	20.9%	19.8%	3.1%	3.3%	3.3%	3.3%
Total Revenue	368,817	407,370	415,639	429,953	443,638	455,322	4.8%	10.8%	10.5%	2.0%	3.4%	3.2%	2.6%

TABLE 2
FIVE YEAR FORECAST
GENERAL FUND - OPTIMISTIC SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
(\$000S)

	UNAUDITED ACTUAL FY04	REVISED APPROP FY05	FORECASTS			
			FY06	FY07	FY08	FY09
RESOURCES:						
Recurring Revenue	360,542	399,039	413,829	428,648	443,169	455,014
1/16th GRT Reduction			(7,443)	(7,716)	(7,992)	(8,216)
% Chng Recur'g Revenue		10.7%	1.8%	3.6%	3.4%	2.7%
Total Non-recurring	10,521	8,331	9,253	9,022	8,461	8,524
TOTAL REVENUES	371,063	407,370	415,639	429,953	443,638	455,322
% Chng Total Revenue		9.8%	2.0%	3.4%	3.2%	2.6%
BEGINNING FUND BALANCE	43,125	64,786	66,674	27,087	(8,732)	(49,687)
TOTAL RESOURCES	414,188	472,156	482,313	457,041	434,907	405,635
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	341,032	387,867	436,717	453,302	474,622	489,716
% Change Recurring Appropriation		13.7%	12.6%	3.8%	4.7%	3.2%
Non-recurring Exp/App:						
One-time Items	8,370	17,615	18,509	12,470	9,972	9,432
Total Non-recurring	8,370	17,615	18,509	12,470	9,972	9,432
TOTAL EXPEND/APPROP	349,402	405,482	455,226	465,772	484,594	499,148
UNADJUSTED FUND BALANCE	64,786	66,674	27,087	(8,732)	(49,687)	(93,513)
ADJUSTMENTS:						
Encumbrances	(1,035)	0	0	0	0	0
Unrealized Gains on Investments	375	(97)	(97)	(97)	(97)	(97)
Other Accounting Adjustments	(537)	(389)	(389)	(389)	(389)	(389)
TOTAL ADJUSTMENTS	(1,197)	(486)	(486)	(486)	(486)	(486)
ADJUSTED FUND BALANCE	63,589	66,188	26,601	(9,218)	(50,173)	(93,999)
RESERVES:						
Bus Rapid Transit (BRT)	275	0	0	0	0	0
FY/05 Reserves	0	5,921	3,921	3,921	3,921	3,921
1/12th Operating Reserve	29,202	33,457	37,936	38,814	40,383	41,596
TOTAL RESERVES	29,477	39,378	41,857	42,735	44,304	45,517
UNRESERVED FND BALANCE	34,112	26,810	(15,256)	(51,953)	(94,477)	(139,516)
1/12th Operating Reserve	29,117	33,790	37,936	38,814	40,383	41,596
Recurring Surplus/(Deficit)	19,510	11,172	(22,888)	(24,655)	(31,452)	(34,702)

PESSIMISTIC SCENARIO

This scenario is based on the GI pessimistic alternative that is assigned a probability of 20%. In this scenario, is driven by high oil prices increases in inflation and weakness in the world economy limiting export growth.

National Assumptions

- Job growth remains below growth in the labor force. Unemployment peaks at 6.5% in the first quarter of 2007.
- Consumer confidence plunges, and consumption falls after spending of tax refunds in 2004.
- Inflation accelerates FRB increases rates in 3 points above baseline in FY/06. Inflation remains at 3% for forecast. Federal funds rates are above baseline for entire forecast.

Local Assumptions

General Economic Assumptions

- Eclipse production doesn't occur until 2009 instead of 2007
- Single-family housing down 60 units in 2005:Q2, down 120 units in 2005:Q3, down 180 units in 2005:Q4, and down 240 units in 2006:Q1 and out.
- Health services down 500 jobs each year, FY/05 – FY/09.
- Construction employment down 325 jobs per quarter FY/05 – FY/09.

Specific Revenue Assumptions

- Building permit revenues are reduced with reductions in the number of homes. This is driven in part by higher interest rates
- Franchise fees are weaker due to slower growth
- Charges for services are reduced with lower revenues from newly opened venues.

PESSIMISTIC SCENARIO FACTORS

GLOBAL INSIGHT PESSIMISTIC SCENARIO						
		2005	2006	2007	2008	2009
All Items	CPI-U	2.84%	2.59%	2.94%	3.20%	3.15%
Medical Care	MEDICAL	3.19%	4.17%	5.09%	5.40%	4.88%
Trasportation	Autorep	2.25%	3.32%	3.74%	3.86%	3.67%
New Cars	NEWAUTO	0.11%	1.79%	1.69%	2.42%	2.39%
Natural Gas	NATGAS	9.90%	-2.04%	-1.37%	-5.67%	1.18%
Gasoline & Oil	FUEL	13.42%	0.11%	0.33%	0.40%	0.95%
Tires/Tubes/Accessories/Parts	TIRES	0.91%	0.36%	0.56%	0.82%	0.56%
Employment Cost Index-Wages & Salary, Private Nonfarm	WAGES	2.64%	3.05%	3.22%	3.64%	3.90%
PPI-Fuels & Related Products Electric Power	ELECT	3.54%	2.98%	1.66%	1.68%	2.19%
PRICE INDEX-Govt Consumption Noncompensation	GOVT	3.41%	2.93%	2.97%	3.16%	3.16%

	Actual/04	FY/05 Five-Year	FY/06	FY/07	FY/08	FY/09	Growth Rates					
							FY/04 actual	FY/05	FY/06	FY/07	FY/08	FY/09
Gross Receipts	257,801	265,638	267,338	274,335	286,089	300,777	9.2%	3.0%	0.6%	2.6%	4.3%	5.1%
Public Safety GRT	0	28,709	32,360	33,263	34,793	36,611			12.7%	2.8%	4.6%	5.2%
Taxes	48,465	49,420	50,290	51,080	52,168	53,282	22.5%	2.0%	1.8%	1.6%	2.1%	2.1%
Shared	5,039	4,830	4,891	4,953	5,015	5,078	11.5%	-4.1%	1.3%	1.3%	1.3%	1.3%
Permits	13,716	12,465	11,048	10,515	10,710	10,871	11.7%	-9.1%	-11.4%	-4.8%	1.9%	1.5%
Charges for Services	17,684	16,000	16,440	17,384	17,731	17,882	3.6%	-9.5%	2.8%	5.7%	2.0%	0.9%
Intra City	17,103	17,386	17,452	18,021	18,624	19,238	6.1%	1.7%	0.4%	3.3%	3.3%	3.3%
Misc	1,652	1,433	1,813	1,857	1,922	2,001	32.2%	-13.3%	26.5%	2.4%	3.5%	4.1%
CIP Funded	7,356	8,815	9,087	9,384	9,698	10,018	20.9%	19.8%	3.1%	3.3%	3.3%	3.3%
Total Revenue	368,817	404,697	410,719	420,791	436,750	455,757	10.8%	9.7%	1.5%	2.5%	3.8%	4.4%

TABLE 2 P
FIVE YEAR FORECAST
GENERAL FUND - PESSIMISTIC SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
(\$000S)

	UNAUDITED ACTUAL FY04	REVISED APPROP FY05	FORECASTS			
			FY06	FY07	FY08	FY09
RESOURCES:						
Recurring Revenue	360,542	396,366	409,157	419,777	436,600	455,956
1/16th GRT Reduction			(7,430)	(7,625)	(7,951)	(8,359)
% Chng Recur'g Revenue		9.9%	1.4%	2.6%	4.0%	4.4%
Total Non-recurring	10,521	8,331	8,992	8,639	8,101	8,159
TOTAL REVENUES	371,063	404,697	410,719	420,791	436,750	455,757
% Chng Total Revenue		9.1%	1.5%	2.5%	3.8%	4.4%
BEGINNING FUND BALANCE	43,125	64,786	64,000	19,544	(25,078)	(73,910)
TOTAL RESOURCES	414,188	469,482	474,719	440,335	411,672	381,847
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	341,032	387,867	436,717	453,314	475,773	492,907
% Change Recurring Appropriation		13.7%	12.6%	3.8%	5.0%	3.6%
Non-recurring Exp/App:						
One-time Items	8,370	17,615	18,458	12,099	9,810	9,995
Total Non-recurring	8,370	17,615	18,458	12,099	9,810	9,995
TOTAL EXPEND/APPROP	349,402	405,482	455,175	465,413	485,583	502,902
UNADJUSTED FUND BALANCE	64,786	64,000	19,544	(25,078)	(73,910)	(121,055)
ADJUSTMENTS:						
Encumbrances	(1,035)	0	0	0	0	0
Unrealized Gains on Investments	375	(97)	(97)	(97)	(97)	(97)
Other Accounting Adjustments	(537)	(389)	(389)	(389)	(389)	(389)
TOTAL ADJUSTMENTS	(1,197)	(486)	(486)	(486)	(486)	(486)
ADJUSTED FUND BALANCE	63,589	63,514	19,058	(25,564)	(74,396)	(121,541)
RESERVES:						
Bus Rapid Transit (BRT)	275	0	0	0	0	0
FY/05 Reserves	0	5,921	3,921	3,921	3,921	3,921
1/12th Operating Reserve	29,202	33,457	37,931	38,784	40,465	41,908
TOTAL RESERVES	29,477	39,378	41,852	42,705	44,386	45,829
UNRESERVED FND BALANCE	34,112	24,136	(22,794)	(68,269)	(118,782)	(167,370)
1/12th Operating Reserve	29,117	33,790	37,931	38,784	40,465	41,908
Recurring Surplus/(Deficit)	19,510	8,499	(27,560)	(33,537)	(39,173)	(36,950)

Comparison of Scenarios—National and Local Variables

Indicator/ FY	SCENARIO			Difference from Base		
	Optimistic	Baseline	Pessimistic	Optimistic	Pessimistic	
Employment -Albuquerque MSA						L O C A L
2005	2.52%	1.90%	2.22%	0.62%	0.32%	
2006	3.23%	2.40%	1.94%	0.83%	-0.46%	
2007	2.74%	2.30%	1.46%	0.44%	-0.84%	
2008	2.43%	2.30%	1.95%	0.13%	-0.35%	
2009	1.87%	2.10%	2.20%	-0.23%	0.10%	I N D I C A T O R S
MSA Construction Employment						
2005	5.29%	2.20%	4.66%	3.09%	2.46%	
2006	4.41%	1.30%	-0.79%	3.11%	-2.09%	
2007	3.13%	1.40%	1.41%	1.73%	0.01%	
2008	2.57%	1.50%	3.02%	1.07%	1.52%	
2009	2.10%	4.30%	3.14%	-2.20%	-1.16%	
Residential Housing Permits-Inside City						
2005	5544	5,788	5348	(244)	(440)	
2006	5295	5,399	3607	(104)	(1,792)	
2007	4922	5,145	2677	(223)	(2,468)	
2008	4879	5,202	2624	(323)	(2,578)	
2009	4703	5,172	2807	(469)	(2,365)	
Real GDP						N A T I O N A L
2005	3.89%	3.77%	3.30%	0.12%	-0.47%	
2006	3.61%	3.07%	2.90%	0.55%	-0.17%	
2007	3.78%	3.07%	3.90%	0.72%	0.83%	
2008	3.63%	3.19%	4.10%	0.44%	0.91%	
2009	3.46%	3.09%	3.30%	0.37%	0.21%	
Price Index Consumer Price Index-Urban Consumers						
2005	2.24%	2.49%	2.84%	-0.25%	0.36%	
2006	0.86%	1.43%	2.59%	-0.57%	1.16%	
2007	1.22%	1.57%	2.94%	-0.35%	1.37%	
2008	1.49%	1.83%	3.20%	-0.34%	1.37%	
2009	1.69%	2.02%	3.15%	-0.34%	1.13%	

REVENUE COMPARISON

	Pessimistic-Baseline					Optimistic - Baseline				
	FY/05	FY/06	FY/07	FY/08	FY/09	FY/05	FY/06	FY/07	FY/08	FY/09
Gross Receipts	-	(490)	(1,424)	1,707	6,697	-	(46)	1,856	3,158	1,503
Public Safety GRT	-	(61)	(176)	211	829	-	(6)	230	391	186
Taxes	-	156	247	447	462	-	-	-	-	-
Shared	(47)	(59)	(72)	(85)	(98)	-	-	-	-	-
Permits	(291)	(1,029)	(955)	(806)	(818)	1,003	1,943	2,816	2,816	2,858
Charges for Services	(833)	(1,145)	(1,458)	(1,571)	(1,684)	-	100	100	100	100
Intra City	-	-	-	-	-	-	-	-	-	-
Misc	(500)	(300)	(313)	(309)	(297)	-	-	11	18	9
CIP Funded	-	-	-	-	-	-	-	-	-	-
Total Revenue	(1,671)	(2,928)	(4,151)	(405)	5,091	1,003	1,992	5,012	6,482	4,656

REVENUE HISTORY

GENERAL FUND REVENUE HISTORY

A history of major revenue sources for the General Fund from FY/98 to FY/04 is presented below. These numbers reflect a one-month accrual of tax revenues to comply with the tax revenue standard issued by the Governmental Accounting Standards Board in 1994. Recurring receipts grew at a compound annual rate of 4.3%. The growth is pushed up by the addition of a mill in property tax revenue added in FY/04 and very large growth in GRT. FY/04 pushed up the average growth rate by 1%.

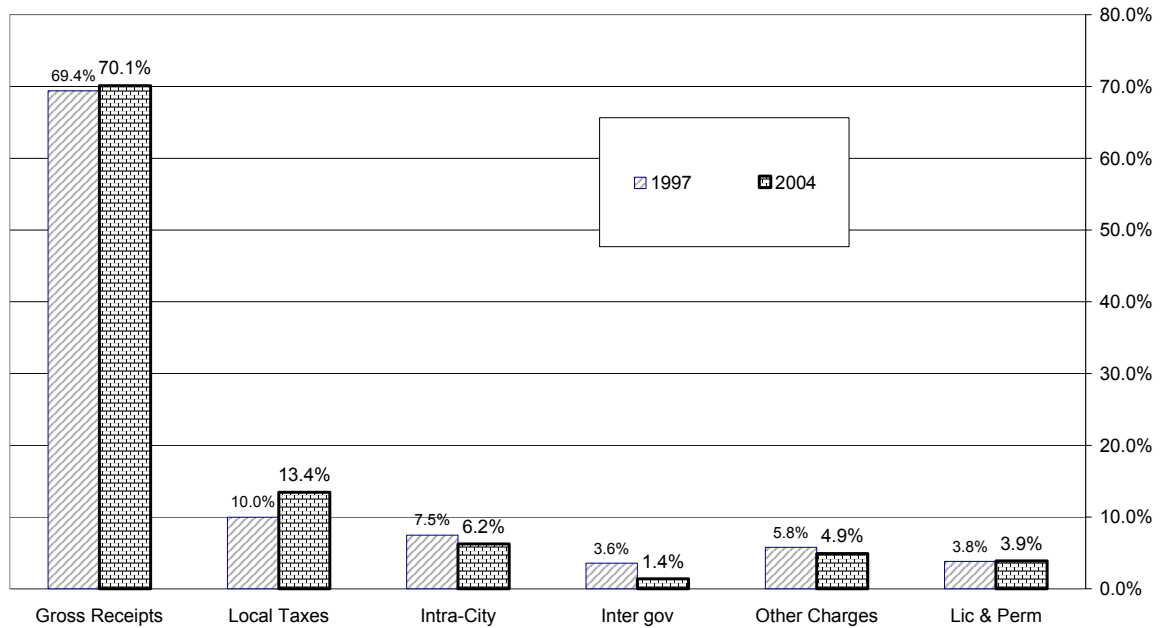
The bar chart below compares the composition, by major revenue category, of General Fund recurring revenues in FY/97 and FY/04. The City's General Fund has become somewhat more reliant on the gross receipts taxes and local taxes and considerably less dependent on intra-City revenues. Intergovernmental assistance and miscellaneous receipts each account for a reduced percentage of total recurring revenues.

The Albuquerque economy expanded rapidly from FY/92 to FY/95. There was a construction boom and many firms and people moved here from California and other locales. The economy began slowing substantially in FY/96. This affected gross receipts tax collections resulting in slow growth from FY/96 to FY/00. In FY/01, growth was somewhat stronger as the semiconductor industry began hiring again. In addition large projects such as the Big-I reconstruction and the Intel project helped boost construction employment. Unfortunately this rebound was short lived as the national economy went into recession in FY/02. The end of FY/03 showed signs of a resurgence in the economy as employment and GRT revenues grew substantially faster than originally estimated. FY/04 had very large growth in GRT of 9.2%, far exceeding the growth in the underlying economy. The Albuquerque and New Mexico economies grew substantially faster than the rest of the U.S.

Over the FY/98 to FY/04 period, the General Fund has not gained any substantial sources of revenue. There were some changes in rates, but since the Aquarium/botanic gardens came on line in FY/97 no large venues have opened. The General Fund has lost revenue sources including: the state shared gasoline tax now registered in the Gasoline Tax Road Fund; the court paid corrections fee that is now directed to parking structure construction for the new Metropolitan court house; the operating transfer from the Department of Transportation; and revenues from the Convention Center.

The specific changes for different revenue categories are discussed below, with gross receipts at the end of the section.

CHANGING COMPOSITIONS OF RECURRING REVENUES IN THE GENERAL FUND



GENERAL FUND										
HISTORICAL COMPARISON OF REVENUE SOURCES										
(\$000)										
Revenue Source	98	99	00	01	02	03	04	Growth FY9 TO 04	Compound Annual	Estimated FY/04
Gross Receipt Tax	200,831	206,565	214,447	224,184	225,723	236,013	257,801	28.4%	4.2%	244,847
Property Taxes	12,875	13,530	15,315	15,443	15,879	16,498	24,734	92.1%	11.5%	24,316
Phone Franchise	7,496	4,181	3,728	3,952	3,923	3,917	3,636	-51.5%	-11.4%	667
Electric Franchise	5,776	5,869	5,351	5,660	5,693	5,829	5,798	0.4%	0.1%	3,269
Gas Franchise	1,844	1,337	1,499	2,780	1,898	2,809	4,140	124.5%	14.4%	3,300
Cable Franchise	2,256	2,329	2,457	2,641	3,296	4,274	3,245	43.9%	6.2%	5,788
Other Franchise	281	445	547	592	558	627	876	211.2%	20.8%	3,995
PILOT	4,363	4,890	4,842	5,117	5,450	5,613	6,036	38.3%	5.6%	6,062
Building Permits	5,184	5,830	5,580	6,069	6,238	9,617	10,788	108.1%	13.0%	9,617
Licenses/Fees	2,372	2,306	2,431	2,654	2,405	2,662	2,928	23.4%	3.6%	2,747
FTA	0	0	0	0	0	-	-	-	-	-
Gasoline Tax Distrs	7,124	6,958	2,295	2,337	2,438	2,040	2,330	-67.3%	-17.0%	2,448
Other Intergov'l	3,107	2,886	2,849	1,987	2,425	2,481	2,709	-12.8%	-2.3%	2,452
Charges for Service	16,914	16,121	15,959	16,375	15,697	17,074	17,684	4.6%	0.7%	18,304
Internal	3,665	2,635	2,109	2,224	1,745	1,330	1,032	-71.8%	-19.0%	1,083

Service										
Indirect Overhead	12,164	12,815	13,957	14,322	13,462	13,282	14,144	16.3%	2.5%	14,264
CIP-Funded	4,418	4,187	3,492	3,585	5,733	6,084	7,356	66.5%	8.9%	9,056
Interest on Invest	3,279	2,088	1,876	3,229	974	746	427	-87.0%	-28.8%	1,000
Other Miscellaneous	699	873	834	748	607	504	3,471	396.5%	30.6%	720
Interfund Transfers	6,365	1,398	1,468	3,663	3,436	1,509	1,927	-69.7%	-18.1%	2,184
Total Revenue	301,014	297,243	301,034	317,563	317,581	332,909	371,063	23.3%	3.5%	356,119
Non-Reurring	9,117	719	2,500	1,345	3,407	3,200	10,521	15.4%	2.9%	3,775
Recurring Revenues	291,897	296,524	298,534	316,218	314,174	329,709	360,542	23.5%	4.3%	352,344

Local Taxes. This category includes property taxes, franchise fees, and PILOT. This revenue category increased its share of total recurring revenues from 10% in FY/97 to 13.4% in FY/04. Property tax revenues increased at a compound rate of 11.5%, in large part due to large reassessments in FY/01 and the shift of one mill in property taxes to the General Fund in FY/04. Franchise revenues are flat for this period, but only because FY/98 had a \$2.2 million settlement in the telephone franchise. Discounting this growth was a compound annual increase of 2.7% a year. The gas franchise revenues increased at a compound rate of 14.4% reflecting natural gas prices spiking in FY/01 and FY/03 and FY/04. Also, the franchise rate was increased from 2% to 3% effective February of 2003. Electricity experienced an annual increase of only 0.1% due primarily to reductions in electric rates over the period. PILOT revenues increased at an annual rate of 5.5%. The strong growth in PILOT is due to rate increases by the water and sewer utility for the de-nitrification facility and in support of the water resource program for the San Juan Chama water diversion project. Also, the PILOT has a gross receipts tax component that increased with the addition of the quarter cent transportation tax. With the creation of the Albuquerque Bernalillo Water Authority, beginning in FY/05, PILOT will be based on a 4% franchise agreement.

Intergovernmental Assistance. Intergovernmental revenues other than the gross receipts tax accounted for 3.6% of General Fund recurring receipts in FY/97 and only 1.4% in FY/04. The first loss was the Federal Transportation Administration operating subsidy. In FY/94, operating assistance under the Federal Transportation Act was \$1.5 million. In FY/98, this went to zero as the assistance was no longer available to cities with populations over 250,000. In FY/00, the state legislature required moving the shared gasoline taxes to a separate fund producing a revenue loss to the General Fund of approximately \$4.6 million. Movement of expenditures for streets in an equal amount made the impact neutral to General Fund balances. The gasoline tax "municipal road" distribution remains in the General Fund, but is faced with slow growth. In FY/99, revenue growth was slow in part due to sales from Indian Pueblos to gasoline wholesalers within the City. The state legislature formalized this with certain restrictions in the 1999 session. Motor vehicle fees brought in about \$1.08 million in FY/96. Revenues from this source were increasing very gradually, but

in FY/95 the Local Government Division implemented a new methodology for calculating one of the distributions to conform better to State statute. That change resulted in an annual loss of revenues that approaches \$250 thousand. In FY/94, the General Fund received a new revenue source in State-shared revenues from DWI tickets to be used for corrections facilities operations. These revenues were erratic and varied from \$300 to over \$800 thousand per year. FY/00 is the last year the City received this revenue though some revenues owed in FY/00 were received in FY/01. This distribution now is directed to help construct a parking structure for the new Metropolitan Courthouse. Another distribution was to begin in FY/04 but no revenue was received and in the future if received will be booked into a separate fund.

Other Charges. Revenues from other charges accounted for 5.8% of General Fund recurring revenues in FY/97 to 4.9% in FY/04. The opening of the Aquarium/Botanic Gardens during FY/97 provided the General Fund with a significant new revenue source. In its first partial year of operations, the Aquarium/Botanic Gardens generated over \$1.3 million in admissions revenues, but revenue had declined in FY/01 to only \$792 thousand. Increased fees and increased visitation had revenues up to \$1.2 million for FY/03 and \$1.1 million in FY/04. Zoo revenues, including admissions, have been relatively flat at around \$1.3 million. With increased fees, revenues increased to \$1.6 million which was received again in FY/04. In FY/00 the Zoo concession revenues, of approximately \$90 thousand, were earmarked for continued use outside the General Fund. Convention Center rental revenues were down in FY/00, in part due to the Bowling Congress that tied up part of the Center from other rental uses. Convention Center rentals have been sporadic at best. In FY/98 and FY/01 revenues were strong. Convention Center rental revenues were down in FY/00, in part due to the Bowling Congress that tied up part of the Center from other rental uses. In FY/03 revenues were 13% below FY/97, a reflection of the slowness in conventions and travel. In FY/04 the operation of the Convention Center was privatized in mid-year reducing revenue by about \$1.6 million. Construction has been relatively strong in this period and engineering fees increased from \$986 thousand to \$1.6 million in FY/04. These revenues fluctuate with construction. Revenues from charges for legal services increased in FY/98, with a fee increase that brought revenues up to \$2.1 million. Revenues have tapered off and in FY/03 were only \$1.5 million but increased to \$1.95 million in FY/04. This is the result of filling vacancies in the legal department and reduced hiring of outside counsel. Charges for police over-time services are an offset to pay officers for private use. It has remained relatively flat at around \$1 million, with modest increases in the overhead rate bringing revenues up to \$1.3 million in FY/03 and FY/04. Reimbursements from the County for library services in the unincorporated areas increased slightly from \$912 thousand in FY/97 to \$1 million in FY/04 as the City is not operating any additional libraries for the County.

Intra-City Revenues. These are revenues from internal service charges, indirect overhead, CIP-funded positions, and other interfund transfers, excluding PILOT. In FY/97 these accounted for 7.5% of recurring revenues and 6.3% in FY/04. This does not include transfer from the Quality of Life Fund or transfers for the Transportation Infrastructure Tax considered non-recurring. The

reduction in importance is primarily due to a reduction in internal service charges. Recurring for CIP funded positions increased substantially in FY/02 and FY/03; these positions are associated with capital projects at the zoo, Tingley Beach, and tax increment funded programs.

Interfund transfers totaled \$3.6 million in FY/03, but \$1.9 million of this was a non-recurring transfer from the police mini-substation fund. In FY/96 total transfers were \$2.9 million with \$2 million in transfers from the Quality of Life Fund. On a recurring basis, transfers increased from \$900 thousand to \$1.5 million. Transfers for the Quality of Life Fund averaged close to \$2 million from FY/94 to FY/98 when the last money from the fund was transferred to the General Fund.

Revenues from internal service charges fell from \$3.6 million in FY/97 to \$1.3 million in FY/03, falling to \$1 million in FY/04. In FY/99 the movement of radio and telephone maintenance to a separate fund, reduced expenditures by \$790 thousand. The City has also discontinued the provision of many of its office services, engineering services and surveying services. Engineering and surveying fell from \$1.6 million in FY/98 to \$160 thousand in FY/04

Indirect overhead revenues in FY/97 were \$12.8 million; in FY/04, this category generated \$14.4 million in revenues for the General Fund. Indirect overhead was limited in FY/03 as positions were reduced or left unfilled in the enterprise funds and other funds paying indirect overhead. Also, the addition of new funds for Air Quality and Radio and Telephone Maintenance has increased this transfer.

Licensing, Permit Fees and Miscellaneous. The share for this category was 3.8% in FY/97 and 3.9% in FY/04. License and permit revenues increased at a rate slower than the average for all revenues. Building permits increased at an annual rate of 4.5% from FY/97 to FY/02 and then jumped by 54% in FY/03 with increases in rates and in construction. Interest earnings are a large source of income that declined in FY/02 to FY/04 mostly due to decreases in interest rates.

Gross Receipts Tax. The gross receipts tax remains the major contributor to the General Fund making up 70.1% of recurring revenues in FY/04. The tax rates from the state and those imposed by the City for general fund purposes have not changed since FY/97. From July 1, 1999 to January 1, 2000 the ¼ cent quality of life tax had expired and the ¼ cent transportation tax had not yet been imposed, but the revenues from these special impositions are not diverted to the General Fund.

GROSS RECEIPTS TAX REVENUES, FY'S 1998 - 2004

(\$000's)

DETAIL ON GROSS RECEIPTS:	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03	FY/04	FY'S 98-04 PERCENT CHANGE	COMPOUND ANNUAL RATE
GENERAL FUND:									
MUNICIPAL IMPOSED 1/2 CENT	48,770	50,163	51,406	54,610	55,034	57,569	62,778	28.7%	4.3%
BASIC SERVICES 1/4 CENT	23,162	23,827	24,327	26,486	26,557	27,916	30,442	31.4%	4.7%
INFRASTRUCTURE 1/16 CENT (2)	5,802	5,955	6,236	6,622	6,643	6,983	7,612	31.2%	4.6%
	77,734	79,945	81,969	87,718	88,234	92,468	100,832	29.7%	4.4%
STATE SHARED RECEIPTS									
1% DISTRIBUTION (3)	98,822	101,418	105,915	110,264	110,715	115,901	126,639	28.1%	4.2%
.35%/ .225% DISTRIBUTION (3,4)	22,239	22,823	23,835	24,822	24,915	26,082	28,499	28.1%	4.2%
	121,061	124,242	129,750	135,086	135,631	141,984	155,138	28.1%	4.2%
TOTAL TAX RECEIPTS	198,795	204,187	211,719	222,804	223,865	234,452	255,970	28.8%	4.3%
PENALTY & INTEREST	2,036	2,379	940	1,406	1,858	1,562	1,831	-10.1%	-1.8%
TOTAL GENERAL FUND DISTRIBUTION	200,831	206,566	212,659	224,210	225,723	236,013		-100.0%	-100.0%
MUNICIPAL IMPOSED 1/4 CENT									
QUALITY OF LIFE (5)	0	0	0	0					
OPEN SPACE & PARK DEVT (6)	20,910	23,827	2,070	0					
TRANSPORTATION INFRASTRUCTURE (7)			10,131	26,486	26,557	27,916	30,442		
	20,910	23,827	12,201	26,486	26,557	27,916	30,442	NA	NA
TOTAL GROSS RECEIPTS TAX REVENUES(1)	221,741	230,393	224,860	250,696	252,281	263,930	30,442	NA	NA

(1) After adjustments in compliance with GASB.

(2) The Municipal Infrastructure Gross Receipts Tax went into effect July 1, 1992, with the first distribution in September..

(3) Administrative fee on distributions above the 1/2 cent (1/4 and 1/16 cent distributions) increased from three to five percent in FY/98. It returned to three percent in FY/01.

(4) Effective August 1, 1992, the State took back 1/8th cent of their distribution of State shared receipts to municipalities.

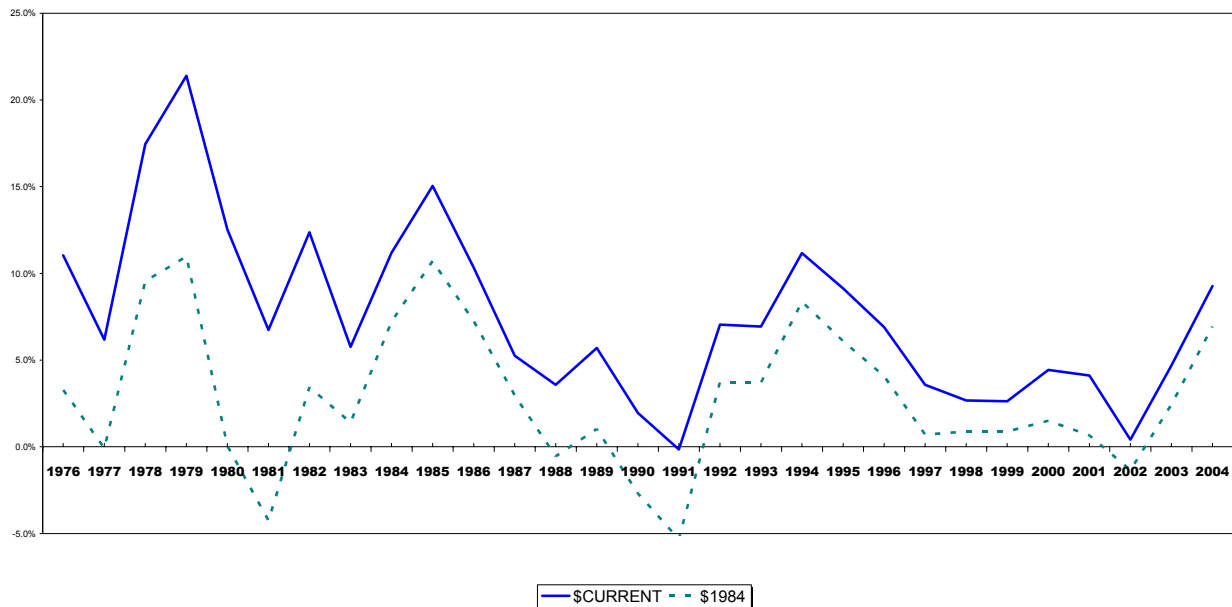
(5) Quality of Life Tax sunset December 31, 1996.

(6) 1/4 Cent for Open Space and Park Development went into effect July 1, 1997. Tax sunset June 30, 1999.

(7) 1/4 Cent Transportation Infrastructure tax went into effect January 1, 2000 and will sunset December 31, 2009

The preceding table provides a summary of the gross receipts tax from FY/97 to FY/04 as a revenue source for the City of Albuquerque. The General Fund receives nearly all of the locally imposed gross receipts taxes. Exceptions are special purpose taxes such as the quality of life tax, the quarter cent for open space, and the quarter cent transportation tax. The transportation tax was imposed for ten years beginning in January 2000. The compound annual growth of gross receipts tax revenues is 4.2% in the period FY/98 to FY/04. Much of this growth is from the 9.2% growth experienced in FY/04, most of the other years had much lower growth than this rate. Much of this can be explained by slow economic performance and changes to the tax base by State. The 1/4 and 1/16 cent distributions were affected by the imposition of an additional 2% administrative fee imposed in FY/98 to fund a new computer system for state gross receipts distributions. It was collected until June 30, 2000.

GROWTH IN THE GRT 1% DISTRIBUTION
% CHANGE OVER PRIOR YEAR, FY'S 1976-2004



The year-over-year growth in the 1% distribution received as State shared revenues, is charted above in current dollars and inflation adjusted to constant 1994 dollars. The tax mimics the performance of the Albuquerque economy. The gross receipts tax is an "elastic" revenue source as revenues are sensitive to economic growth and inflation. Negative real growth in FY/81, FY/91, and FY/02 correspond to national recessions. Following the slowdown in FY/91 the Albuquerque economy boomed. Construction was strong, lead by the construction at Intel. DOE and military facilities were doing well and manufacturing experienced a boom in the semiconductor industry. In FY/95, the economy began slowing as the Intel project was completed and construction began tapering off. Sandia National Labs began reducing local purchases in 1995 as employment declined from 8,100 in FY/95 to about 6,600 in FY/00. Engineering and management services declined over 3% in 2 years. As about 90% of the semiconductor production in New Mexico was dependent on Asian markets, the Asian financial crisis that began in the fall of 1997 hit New Mexico hard. Major semiconductor manufacturers (Intel, Philips, Sumitomo, Motorola) all had slowdowns and layoffs. Over 2,300 jobs were lost in the manufacturing industry from FY/97 to FY/00. About 500 of these jobs were from Levi Strauss who also was affected by the crisis. Certainly there were secondary affects as producers usually made large local purchases of inputs to their manufacturing process. In FY/01 manufacturing made a bit of a turn and then in FY/02 driven by the national recession employment declined for three straight quarters. In FY/03 the economy turned and employment grew by about 1%, though manufacturing continued to lose jobs. Manufacturing from FY/01 to FY/04 lost about 4,900 jobs. This includes slowdowns at EMCORE, Motorola selling its capacity and Philips shutting down its New Mexico operations.

The one-percent distribution demonstrates how these events affected gross receipts tax revenues. From FY/97 to FY/99 the real growth in the one-percent

distribution was less than 1%. FY/00 was a stronger year at 1.6% real growth. FY/01 again slows to 0.7% growth caused in large part by the higher inflation rate of 3.4%. There was growth of 0.4% in FY/02, resulting in a negative real (inflation adjusted) growth rate. In FY/03 the turn around in the economy is reflected by a nominal 4.7% growth rate and 2.4% in real terms. In FY/04 growth exceeded all expectations at 9.2%. This was with 1% growth in employment and low inflation. Some of the growth can be explained by annexation of existing retail, but much of the growth remains unexplained.

Changes to Gross Receipts Tax Base

Between FY/90 and FY/04 the state legislature has exempted or allowed deductions from the gross receipts tax base for:

- Prescription Drugs;
- Medicare expenditures;
- Movie production costs;
- Hospitals including for profit have a tax deduction;
- Construction materials purchased locally for use on Indian reservations; and
- 40% deduction for Jet Fuels.

Additionally, in 1991, the state legislature took back 1/8th cent of State-shared distributions to municipalities effective August 1, 1992. Finally, as Albuquerque's share of state gross receipts taxable transactions declines, the growth in our gross receipts tax revenues have lagged the state's.

ACCURACY OF THE REVENUE ESTIMATES

ACCURACY OF THE REVENUE ESTIMATES

A summary of information on the accuracy of the General Fund revenue estimates over the past five years is presented below. The first set of columns reports the accuracy of the 4-month revised estimates, which are prepared in February and March of the year in question in conjunction with putting together the Mayor's Budget for the next fiscal year. The second set of columns present the error of the 6 month revised estimates that are prepared as part of the Five-Year Forecast. The final set of columns report the error on the original budget estimates prepared in February and March of the prior year. In each case, the figures are presented for the gross receipts tax, for total recurring receipts, and for non-recurring revenues. For 2000 an additional line was added to account for the loss of \$4.6 million in gasoline tax to the new gasoline road tax fund. CIP-funded positions are excluded from the calculations because expenditures on these positions are always fully reimbursed, with no effect on General Fund balances.

The final table provides information on the accuracy of the revenue estimates by revenue source for FY/04

ACCURACY OF THE GENERAL FUND REVENUE ESTIMATES

ESTIMATING ERROR (ACTUAL - ESTIMATED REVENUES)

(in \$000)

	MARCH REVISION		FIVE YEAR FORECAST		APPROVED BUDGET	
	4 MONTH ESTIMATE		6 MONTH ESTIMATE		16 MONTH ESTIMATE	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
FISCAL YEAR 2004						
Gross Receipts Tax	8,571	3.3%	8,571	3.3%	17,742	6.9%
Recurring Revenues Less CIP	10,125	2.9%	10,103	2.8%	17,809	5.0%
Non-Recurring	-372	-4.6%	(921)	-11.4%	4,849	59.9%
FISCAL YEAR 2003						
Gross Receipts Tax	4,626	2.0%	4,647	2.0%	(1,374)	-0.6%
Recurring Revenues Less CIP	5,139	1.6%	5,729	1.8%	(5,531)	-1.7%
Non-Recurring	640	20.0%	(200)	-6.3%	640	20.0%
FISCAL YEAR 2002						
Gross Receipts Tax	(5,735)	-2.5%	(5,735)	-2.5%	(8,760)	-3.9%
Recurring Revenues Less CIP	(4,051)	-1.3%	(12,496)	-4.1%	(16,938)	-5.6%
Non-Recurring	0	0.0%	0	0.0%	2,707	79.5%
FISCAL YEAR 2001						
Gross Receipts Tax	(1,555)	-0.7%	(1,555)	-0.7%	5,123	2.3%
Recurring Revenues Less CIP	880	0.3%	435	0.1%	4,592	1.5%
Non-Recurring	0	0.0%	445	33.1%	645	48.0%
FISCAL YEAR 2000						
Gross Receipts Tax	692	0.3%	5,002	2.3%	(1,253)	-0.6%
Recurring Revenues Less CIP	(141)	0.0%	(3,972)	-1.4%	(12,330)	-4.2%
W/O Gasoline Tax	(141)	0.0%	511	0.2%	(7,847)	-2.7%
Non-Recurring	0	0.0%	2,320	92.8%	2,500	100.0%
FISCAL YEAR 1999						
Gross Receipts Tax	(2,335)	-1.1%	(535)	-0.3%	2,065	1.0%
Recurring Revenues Less CIP	(2,530)	-0.9%	(790)	-0.3%	1,743	0.6%
Non-Recurring	-196	-27.3%	119	16.6%	719	100.0%
FISCAL YEAR 1998						
Gross Receipts Tax	(165)	-0.1%	(1,670)	-0.8%	(6,770)	-3.4%
Recurring Revenues Less CIP	2,929	1.0%	3,352	1.1%	(2,564)	-0.9%
Non-Recurring	1,121	12.3%	4,371	47.9%	4,371	47.9%
FISCAL YEAR 1997						
Gross Receipts Tax	(1,112)	-0.6%	(1,112)	-0.6%	2,388	1.2%
Recurring Revenues Less CIP	1,030	0.4%	1,641	0.6%	4,516	1.6%
Non-Recurring	111	3.5%	32	1.0%	536	17.0%
FISCAL YEAR 1996						
Gross Receipts Tax	3,887	2.0%	3,287	1.7%	3,287	1.7%
Recurring Revenues Less CIP	4,892	1.8%	4,540	1.7%	3,822	1.4%
Non-Recurring	587	17.5%	883	26.4%	1,046	31.2%
FISCAL YEAR 1995						
Gross Receipts Tax	(92)	-0.1%	908	0.5%	5,908	3.4%
Recurring Revenues Less CIP	866	0.3%	2,703	1.1%	8,989	3.6%
Non-Recurring	(34)	-1.5%	322	13.9%	(34)	-1.5%
FISCAL YEAR 1994						
Gross Receipts Tax	1,243	0.8%	5,243	3.3%	8,243	5.1%

ACTUAL AND ESTIMATED GENERAL FUND REVENUES FOR FY/03

All figures in \$1,000's

REVENUE SOURCES:	ACTUAL FY/04	ESTIMATES								
		2nd Revision (March 2004)			1st Revision (Dec. 2003)			Approved Budget (May 2003)		
		Estimate	Difference	Percent	Estimate	Difference	Percent	Estimate	Difference	Percent
Gross Receipts Taxes	257,801	249,230	(8,571)	-3.3%	249,230	(8,571)	-3.3%	240,059	(17,742)	-6.9%
Property Taxes	24,734	24,316	(418)	-1.7%	24,316	(418)	-1.7%	24,316	(418)	-1.7%
Telephone Franchise	3,636	3,995	359	9.9%	3,995	359	9.9%	4,196	560	15.4%
Electric Franchise	5,798	5,788	(10)	-0.2%	5,788	(10)	-0.2%	5,786	(12)	-0.2%
Gas Franchise	4,140	3,500	(640)	-15.5%	3,300	(840)	-20.3%	2,737	(1,403)	-33.9%
Cable Franchise	3,245	3,269	24	0.7%	3,269	24	0.7%	2,917	(328)	-10.1%
Other Franchise	876	697	(179)	-20.4%	667	(209)	-23.9%	667	(209)	-23.9%
PILOT	6,036	6,062	26	0.4%	6,062	26	0.4%	6,062	26	0.4%
Building Permits	10,788	9,617	(1,171)	-10.9%	9,617	(1,171)	-10.9%	7,794	(2,994)	-27.8%
Other Licenses/Fees	2,928	2,781	(147)	-5.0%	2,747	(181)	-6.2%	2,591	(337)	-11.5%
Gasoline Tax Distrs	2,330	2,448	118	5.1%	2,448	118	5.1%	2,448	118	5.1%
Other Intergov'l	2,709	2,946	237	8.7%	2,602	(107)	-3.9%	2,602	(107)	-3.9%
Charges for Services	17,684	17,075	(609)	-3.4%	18,298	614	3.5%	17,819	135	0.8%
Internal Service	1,032	1,071	39	3.8%	1,183	151	14.6%	1,183	151	14.6%
Indirect Overhead	14,144	14,396	252	1.8%	14,396	252	1.8%	14,791	647	4.6%
Fines and Forfeitures	38	5	(33)	-87.0%	55	17	43.1%	55	17	43.1%
Interest on Invest	427	1,000	573	134.2%	1,000	573	134.2%	1,300	873	204.4%
Other Miscellaneous	3,432	3,142	(290)	-8.5%	2,706	(726)	-21.2%	880	(2,552)	-74.4%
Interfund Transfers	1,927	2,077	150	7.8%	2,307	380	19.7%	2,307	380	19.7%
CIP Funded Positions	7,356	8,288	932	12.7%	9,204	1,848	25.1%	9,056	1,700	23.1%
TOTAL REVENUE	371,063	361,703	(9,360)	-2.5%	363,190	(7,873)	-2.1%	349,566	(21,497)	-5.8%
LESS: NON-RECUR	10,521	8,472	3,200	30.4%	9,021	1,500	14.3%	3,251	(7,270)	-69.1%
RECURRING REVENUE	360,542	353,231	(12,560)	-3.5%	354,169	(9,373)	-2.6%	346,315	(14,227)	-3.9%